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CASPIAN INVESTOR

MARCH 2002

WorldTrade Executive, Inc.
The International Business Information Source™

March 2002
Volume 5, Issue 3

Astana Presses Project Operators to 'Buy Kazakh'

By Irina Denisova

In the next 25 years, Kazakhstan is looking to boost annual oil production from 40 million tons in 2001 to nearly 200 million tons. Participants in oil projects plan to spend tens of billions of dollars to purchase services and equipment. For the time being, project operators tend to import goods, but Astana is determined to nudge them towards buying as much services and goods as possible in the domestic market. Oil investors are wary of the quality of Kazakh goods, but quality may improve and eventually reach world standards, while prices for these goods will remain below what they fetch elsewhere.

This year, Kazakhstan will embark on a large-scale modernization of its oil sector. The signing on December 21, 2001, in Washington, D.C., of the Declaration of Energy Partnership between Kazakhstan and the US may be viewed as the kick-off date of the process. The US promised that not only will it invest in exploration and development of Kazakh deposits, but also that money will be channeled into the production of pipes and other equipment for Kazakhstan's petroleum industry. (See "Kazakh-US Energy Partnership Pact.") The Kazakh government is currently preparing proposals for joint projects.

US investors, should they join projects in the oil field machine-building industry, can bring about a drastic change in Kazakhstan's services market. Foreign operators in Kazakhstan are reluctant to purchase locally manufactured goods for quality reasons, often drawing Astana's fire. Companies are unwilling to risk their projects by awarding contracts to local suppliers, while Kazakhstan lacks necessary funds to modernize its service enterprises. However, Kazakh equipment suppliers modernized by US companies would become much more attractive to oil-investor customers.

ChevronTexaco and ExxonMobil (both US), involved in major projects in Kazakhstan, have already informed Astana that they support the government's course aimed at substituting locally manufactured goods for imports. One company representative said, "We are prepared to place larger orders with Kazakh companies. What really matters is whether or not the quality of equipment and services is up to world standards." An official at the office of the US Chamber of Commerce and Industry in Kazakhstan said, "Astana wants foreigners to award many more orders to local manufacturers. The oil industry will have to play along, while foreign suppliers will have to look for new ways to develop business in Kazakhstan."

Today, oil operators in Kazakhstan find themselves in a difficult position: Operations are mushrooming, and so is the cost of goods and materials purchased outside of Kazakhstan. In 2001, oil production in Kazakhstan grew to 40 million tons, up from 35.5 million in 2000, while the outlays to purchase equipment for the oil industry increased 50%. In 2002, the

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Iran Seeking PSAs For Caspian Investors

The Iranian government may soon succeed in its efforts to obtain the repeal of the constitutional provision prohibiting foreign companies to own property in Iran. Reuters reported that, speaking in Algiers in February during a forum of gas exporters, Oil Minister Bijan Namdar Zangeneh indicated that investors willing to operate on production-sharing terms may soon gain access to the Iranian sector of the Caspian Sea. "Following a thorough study, production-sharing agreements are possible there," he said. "The Caspian Sea is a new zone for us, we have not done anything there yet."

The constitution of Iran, passed right after the 1979 revolution, bans any ownership of natural resources by foreign companies. All contracts with foreign investors are currently signed only on buy-back terms. This entails the Ministry of Oil or some state-owned oil company hiring a private company to perform exploration work or to carry out production on the contract territory; when work is completed, the field is returned to the state. The foreign investor performing work at the field can be neither a partner nor a concessionaire.

Over the past few years, the government has been courting a number of major European corporations, such as Eni (Italy), TotalFinaElf (France), Enterprise Oil (UK), Shell (UK/The Netherlands), and BP (UK), attempting to lure them to hydrocarbon development projects in Iran. Japanese companies have also signaled interest in Iranian resources. However, with buy-back contracts the only possible form of cooperation at present, foreign investors are cool to Iranian opportunities.

The best Iran can offer in the way of traditional contract arrangements is no longer good enough as far as Western companies are concerned. In early February, Sam Laidlaw, general director of Enterprise Oil, told Reuters that his company will most likely pull out of South Pars, Iran's largest gas project. He said contractual terms and conditions do not seem beneficial enough for his company to continue.

In late 2000, Enterprise Oil and Iran's Petropars signed a contract on joint operations during Phases 6, 7, and 8 of South Pars development. The UK corporation holds a 20% stake in the project, which calls for a total investment of $2.65 billion. To date, it has invested about $9 million to finance its role in the project. Should the company actually withdraw, its costs would go up to $15 million.

Caspian Investor™

Analysis and advice for investors in the Caspian region and central Asia

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For some time, Iranian reformers have been attempting to have the constitution amended to improve the investment climate. Gradual liberalization of life in Iran may be an indication that the government will soon be able to introduce PSAs in oil and gas projects. Perhaps Enterprise Oil's threat to pull out of Iran's largest gas project will prompt the government to act more boldly.

Baku Poised to Enact Law on Oil and Gas

The Azeri Commission for Energy, Ecology and Natural Resources of the Milli Mejlis (parliament) will soon submit for deputies' consideration a draft Law on Oil and Gas. The commission also plans to submit to the spring session of the parliament, which began on February 3, three other draft laws: On Ecological Insurance, On Information Concerning the Environment, and On Ecological Education and Enlightenment of the Population.

The draft Law on Oil and Gas was to be approved last year. In May, the Commission for Energy, Ecology and Natural Resources handed over the draft to the then newly created Ministry of Fuel and Energy of Azerbaijan for consideration. But the new ministry's structure, tasks, and functions were endorsed only on September 7, and the ministry was not actually formed until year-end. Meanwhile, there was no action on the draft law.

The Law on Oil and Gas will regulate oil and gas production in the republic, as well as relations with foreign companies producing oil and gas in Azerbaijan. The draft gives the Ministry of Fuel and Energy the authority to formulate the republic's oil and gas policy, sign energy contracts, regulate oil and gas production, and institute regulations. Oil and gas contracts may be signed on the basis of tender results or following bilateral negotiations.

CONFERENCE CALENDAR

March

Fourth Annual Conference
Caspian Energy Retreat
A New Era of Cooperation
London, UK
March 11-12
CWC Group
Tel: 44-207-704-6161
Fax: 44-207-704-8440
Email: bookings@thecwcgroup.com

1st Georgian International Oil, Gas, Energy and Infrastructure Conference & Showcase
Tbilisi, Georgia
March 14-15
ITE Group
Tel: 44-207-596-5000
Fax: 44-207-596-5106
Email: oilgas@ite-exhibitions.com

Energy: New Era, New Governance
London, UK
March 18-19
The Royal Institute of International Affairs
Tel: 44-207-957-5700
Fax: 44-207-321-2045
Email: conferences@riia.org

April

International Energy Project Financing Conference 2002
San Francisco, US
April 18
California Energy Commission
Tel. 916-654-4710
www.energy.state.ca.gov/export

June

MIOGE 2002
11th Moscow International Oil, & Gas Conference
Moscow, Russia
June 25-26
ITE Group
Tel: 44-207-596-5000
Fax: 44-207-596-5106
Email: oilgas@ite-exhibitions.com

For more information, please contact: Thomas Wu, Marketing Specialist, World Trade Executive, Inc., at Tel.: 1 (978) 287-0301; Fax: 1 (978) 287-0302; Email: Tom@wtexec.com. Please note: Conference announcements are subject to space availability.

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After the Law on Oil and Gas becomes effective, new agreements for exploration and production of oil deposits will not have to be ratified by Milli Mejlis, as has been the case until now.

According to Asia Manafova, head of the parliamentary Commission for Energy, Ecology and Natural Resources, the draft, in a unified form, contains the sections and articles set forth in all international oil and gas contracts signed by Azerbaijan, thereby incorporating their provisions in a single law. However, some Azeri experts contend that, since different production-sharing agreements (PSA) were drafted by different companies, there is no way of unifying them all.

Foreign investors already involved in oil and gas projects in Azerbaijan need not worry: The law will not retroactively apply to agreements signed prior to its passage, because provisions of each signed PSA prevail over Azeri legislation passed afterwards.

Kazakh Premier Takes 'Get Tough' Stance

Kazakhstan's government changed hands in late January. Its former head Kasymzhomart Tokayev tendered his resignation and the president immediately accepted it. Kazakh president Nursultan Nazarbayev appointed Imagali Tasmagambetov, former deputy prime minister in charge of social issues and culture, as the new prime minister. (See "Son-in-Law Also Rises," page 12.) According to the Kazakh constitution, whenever the prime minister departs, his government must follow suit, and a new government must be formed.

Tokayev, appointed prime minister in 1999, was viewed in Kazakhstan as a pro-Western political figure. He maintained good relations with foreign investors and was keen on improving Kazakhstan's image abroad amid mounting criticism leveled at Kazakhstan in recent years by the US and Western Europe in connection with its human rights record. Kazakh expert Dulat Musatayev believes that Tokayev's era—marked by a moderate line with foreign investors—ended in December, when Kazakhstan and the US signed a memorandum of cooperation in the energy sphere during Nazarbayev's visit to the US. (See "Astana Presses Project Operators to 'Buy Kazakh,'" page 1.) The document, based on US strategic interests in Kazakh oil and Astana's promise to support the Baku-Tbilisi-Ceyhan pipeline project, became a "non-aggression pact" of sorts.

Nazarbayev expects the new prime minister to tighten the government's line of stricter controls over foreign oil companies and increase support of national capital.

Tokayev's resignation had been anticipated in Kazakhstan for quite some time. His traditionally good relations with foreign investors increasingly diverged with recent trends of a tougher stance towards foreign companies operating in the republic and greater support of national capital.

In 2000, the Kazakh parliament passed the Law on Transfer Prices that enabled the government to impose its controls over all export-import operations carried out by companies, including foreign entities. At about the same time, Transportation of Oil and Gas (TNG), Kazakhstan's national company, emerged as a monopoly operator of all export pipelines pumping crude for export, which implied additional controls over investors' sales.

In addition, the government is currently drafting a Development Strategy for Kazakhstan's Caspian Shelf, a document expected to provide greater opportunities for national companies. Speaking last fall at a forum of Kazakh industrialists, Nazarbayev openly urged the Kazakh business elite to join in the development of prospective blocks on the Caspian Sea shelf.

By appointing Tasmagambetov head of the government, Nazarbayev expects the new prime minister to tighten the government's line of stricter controls over foreign oil companies and increase support of national capital. Indeed, at the first briefing of the new administration, Press Secretary Murat Buldekbayev said the new government was drafting a program for 2002-04 whose primary focus would be to boost the stock market and the oil and financial sectors. He said the

LEADING THE NEWS

government is set on developing the stock market and providing conditions to encourage local investors to pour money in the country's economy.

Blue Stream Pipe Launch Postponed

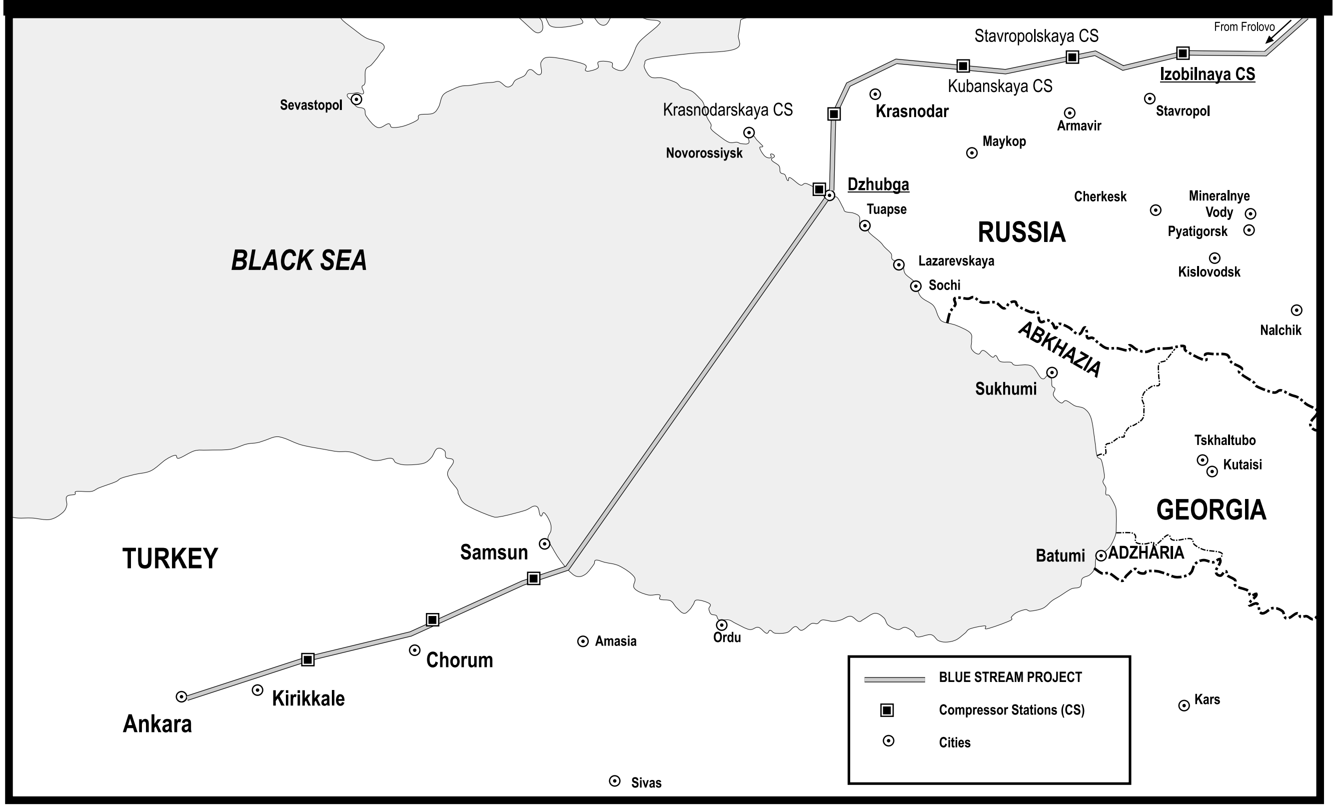
Commissioning the Blue Stream pipeline, being built to ship Russian gas to Turkey, has been delayed yet again. An earlier schedule called for the completion in February 2002 of the Russian section of the Izobilnoye-Djubga gas pipeline. However, in early February construction teams first began welding pipes at a 56-kilometer section traversing the Stavropol territory, Azeri news agency Media-Press reported.

Under the intergovernmental agreement signed on December 15, 1997, delivery of Russian gas to Turkey should have begun in last October, but that target date has been revised several times. The Blue Stream project is to deliver 365 billion cubic meters of Russian gas to Turkey over a period of 25 years.

During the first phase, the design throughput capacity of the 1,236-kilometer pipeline will reach 8 billion cubic meters of gas, and is to be doubled by 2008. Construction of the Turkish 500-kilometer section of the Samsum-Ankara gas pipeline has been completed. The underwater leg of the gas pipeline is being built from the Saipem-7000 platform owned by Eni (Italy).

In late January, progress of construction was reviewed at an emergency meeting of the board of Russian Gazprom. That gas giant's leadership admitted that work on the Russian section of the Blue Stream had fallen far behind the schedule and only 28% of the work that should have been carried out had been actually completed. Failure to meet project milestones were due to delays in the delivery of pipes by Italian pipe manufacturer Ilea.

BLUE STREAM ROUTE



LEADING THE NEWS

In order to avoid falling hopelessly behind the schedule, Gazprom had to use pipes supplied by the Hartsy plant in Ukraine for the Yamal-Europe project.

However, as Russian news agency Itar-Tass reported, the Hartsy pipe plant has just begun to manufacture pipes with anti-rust coating for the onshore portion of the Blue Stream, and it can complete delivery in March.

Delays in launching the Blue Stream spells trouble for Russia. According to Alexandr Ananenkov, Gazprom's first deputy chairman, if the first line of the gas pipeline fails to start pumping gas in October, Turkey could claim $64 million in damages. Meanwhile, failure on the part of Russia to meet contractual gas delivery targets during the first year would give the Turkish side the right to terminate the entire contract.

It seems, however, that a late launch of the Blue Stream is what Ankara actually wants. Officials in the Turkish state pipeline company BOTAS have on many occasions hinted that, due to an economic crisis, Turkey cannot afford to accept Russian gas via Blue Stream. Citing insufficient gas storage capacities, the company made several attempts to have certain provisions of the agreement with Gazprom, based on the take-or-pay principle, revised downwards.

Last December, after a two-year delay, Ankara finally began to import Iranian gas. However, at present, Turkey is considering options for transit of Iranian gas to Europe via its territory. As for the project to export Azeri gas to Turkey by the Baku-Tbilisi-Erzurum gas pipeline, under the Azeri-Turkish agreement, this gas is not confined to the territory of Turkey and can be shipped to Europe as well.

Total reserves of the Turkmen sector of the Caspian Sea are estimated at 12 billion tons of oil and 6.2 trillion cubic meters of natural gas.

Discoveries Posted On Turkmen Shelf

Forecasts of vast hydrocarbons reserves in Turkmenistan's sector of the Caspian shelf seem to be playing out.

In February, Dragon Oil (UAE/UK) and Petronas (Malaysia), two foreign companies operating in the Turkmen sector of the Caspian sea on production-sharing terms (PSA), obtained considerable hydrocarbon influxes while drilling appraisal wells and testing new wells on the shelf.

Dragon Oil successfully completed testing the second production well at the Jeytun field (formerly Lam) which is part of the Cheleken contract territory. The well drilled from an offshore platform produces over 350 tons of oil per day.

The first production well at Jeytun, drilled in June 2001, churned out 250 tons per day. Dragon Oil plans to drill three more wells in 2002, substantially raising production of oil. Last year, production at Cheleken totaled 350,000 tons, while in the next five years the company intends to boost production to 3 million tons per year.

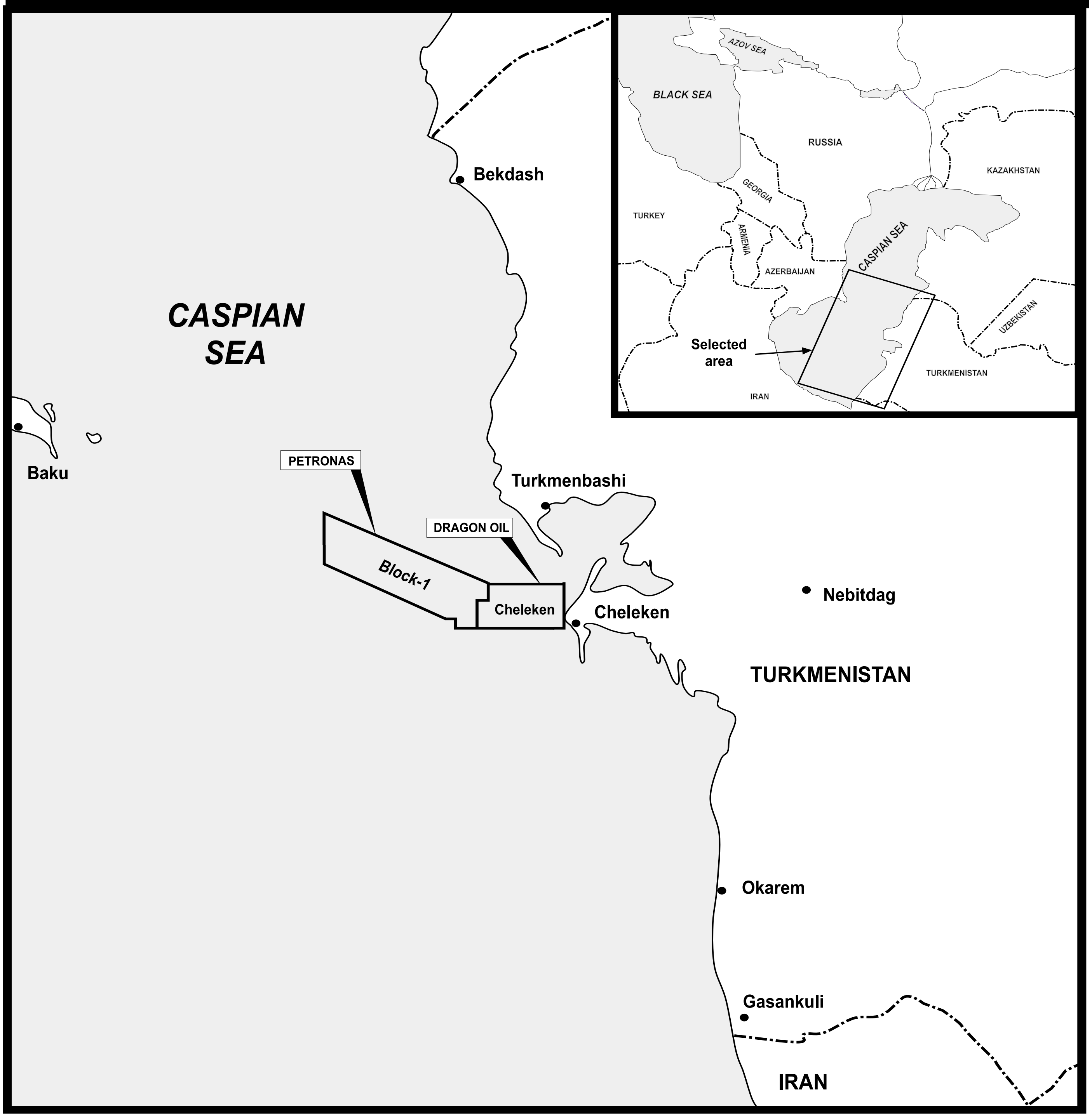
Malaysia's Petronas, operator of the Block-1 territory of the Turkmen shelf, plans to launch production in 2002. At present, the company is conducting exploration. In February, Petronas completed drilling the third exploration well at the Ovez-IX field (formerly Central Livanov-IX) to the depth of 4,405 meters. Preliminary testing results yielded commercial gas influx of 770,000 cubic meters and condensate influx in excess of 300 tons.

In the immediate future, Petronas is to start drilling another well at the Makhtumkuli-2A field (former East Livanov-2À). During 2002, the company plans to drill a total of two exploration wells.

Total reserves of the Turkmen sector of the Caspian Sea are estimated at 12 billion tons of oil and 6.2 trillion cubic meters of natural gas. Ashgabat has made numerous attempts to lure foreign investors to its offshore deposits. The latest presentation, featuring 32 offshore blocks on the Caspian shelf, was held in October 2001. Several foreign companies are negotiating with the Turkmen government on production-sharing agreements for offshore blocks. For that reason, Ashgabat attaches particular significance to successful operations of investors already working in the Turkmen sector of the Caspian Sea. ❑

LEADING THE NEWS

MAP OF THE LOCATION OF PETRONAS AND DRAGON OIL CONTRACT BLOCKS



Kazakh

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international Agip KCO consortium, operator of the offshore Kashagan project, plans to invest around $1 billion. The international Karachaganak Integrated Organization (KIO) and JV Tengizchevroil (TCO) are contemplating comparable investments.

Transport Problems Arise

A spokesman for Agip KCO said, "We'll hold several tenders this year for a variety of contract works and equipment supply. We are faced with a difficult choice: Transportation bottlenecks hold back equipment deliveries and interrupt operations. However, we cannot fully rely on Kazakh suppliers because most of them lack international certificates."

As these tenders come closer, Kazakh officials claim several US companies are eyeing the possibility of forming enterprises in Kazakhstan's coastal area that will provide services for the Kashagan and other oil projects. An official at a UK company that assists Agip KCO in obtaining services, materials, and equipment thinks the best option is this: "The best arrangement is when essential things that a project cannot do without are produced nearby. Kazakhstan dos not have access to open seas and, for that reason, delivery of equipment is a major problem that, among other things, is an extra burden in terms of cost of production and producer costs."

The development of Kazakhstan's sector of the Caspian shelf is gaining in scope. At this stage, the Kashagan project already is experiencing difficulties because the most expedient transportation route from the Black Sea to the Caspian Sea via the Volga-Don canal and river Volga freezes during winter, which delays deliveries. With possible future use of this route by scores of operators at new offshore projects, an underdeveloped infrastructure will pose an insurmountable obstacle to the progress of offshore projects. Oil investors will either have to put their projects on the back burner, or solve the problem of equipment and materials delivery to Kazakhstan.

Local Purchases Increasing

Oil investors already operating in Kazakhstan are gradually boosting the share of local suppliers in their overall orders. In 2000, JV Tengizchevroil purchased $196 million worth of goods and materials locally. In 2001, Kazakh suppliers accounted for orders worth $200 million, and Tengizchevroil intends to raise its outlay to $1 billion. One of TCO's suppliers, JV Belkamit, formed by Almaty-based Gidromash plant, Byelocorp Scientific Inc. (US), and Supso (Italy), manufactures oil field equipment that it sells to Tengizchevroil, KIO, and other foreign companies.

A Belkamit official said, "We have an international certificate, and we offer our customers 10-15% discounts on Western competitors' prices. We can afford to do it because our metal, electric power, manpower, and transportation costs are not as high as costs incurred by manufacturers in Europe and the US." Customers such as TCO believe Kazakh-foreign JVs would be the best option to supply operators in Kazakhstan. Foreign participation

Kazakh-US Energy Partnership Pact

The Republic of Kazakhstan from one side, and the United States of America from the other side, acknowledging a growing significance of the Kashagan and other world-class hydrocarbons deposits in Kazakhstan, have reached an understanding on the following questions:

- Strengthening of cooperation in exploration, development, production, processing, and transportation of oil, gas, condensate, and petroleum products.
- Encouragement of complete utilization of associated gas in the course of commercial development of oil and gas deposits, through cooperation in the creation of incentives for attracting investments into the construction of appropriate infrastructure, promotion of commercial use of gas, and development of new markets for Kazakhstan's gas.
- Cooperation in the development of principles and reforms aimed at promoting market-based investments in the manufacture of pipes for drilling and transportation of production for the oil industry on the territory of the Republic of Kazakhstan.
- Cooperation in the development of principles and reforms aimed at promoting market-based investments in the local production of equipment for the oil and gas producing, oil and gas processing, petrochemical, and other associated industries.

Oil Majors Contract With Local Firms

Agip KCO

In 2002, consortium Agip KCO plans to maintain investments at the same level of $400 million to $500 million that it invested in 2001 in drilling in the Kazakh sector of the Caspian shelf. The consortium plans to sign contracts worth $33 million to $35 million with local Kazakh companies, up from $17.7 million in 2000.

In May 2002, the consortium plans to drill at the Kalamakas structure from a jack-up drilling rig to be delivered from Baku. In late 2002 or early 2003, Agip KCO will launch work at the Aktoty and Kayran structures, planning to build artificial islands to minimize environmental risks. One scenario envisages transportation of oil and gas production via an underwater pipeline constructed 1.5 meters above the seabed, and processing of production at a coastal facility. The construction of a 2.9-billion-cubic-meters-a-year processing plant is to begin in 2003.

Necessary infrastructure for the construction of the plant, including some 15 kilometers of access roads to the main processing site and upgrading of around 15 kilometers of existing roads, a 20-kilometer railroad branch line connected with the national railroad system, five stub tracks and an arrival station is to be developed in 2002. Tenders for these projects will be held and contracts awarded in April and July. Local enterprises will be involved mostly in drilling at the Western Kashagan, development of infrastructure needed to install the second drilling barge, and enlargement of the oil dock in Bautino.

Karachaganak

Karachaganak Integrated Organization (KIO) last year signed contracts worth $130.7 million with Kazakh contractors operating at Karachaganak. Over 400 companies are involved in the performance of works at the field, including 240 companies based in the West Kazakhstan region.

KIO has already invested in excess of $2 billion in the Karachaganak project. By mid-2003, when phase 2 of the field development is to be completed, investments will have totaled $3.5 billion. As part of the project of building the 635-kilometer Tengiz-Big Chagan-Atyrau oil pipeline that will be connected to the Tengiz-Novorossiysk pipeline, the company is preparing for construction of pumping stations in Big Chagan and a terminal in Atyrau. The oil pipeline, to be commissioned in 2003, will annually move up to 7 million tons of Karachaganak condensate.

Tengiz

By 2004-05, Tengizchevroil plans to raise annual production of oil by 7 million tons per year, bringing total production to 19 million tons per year. Between 2000 and 2005, TCO plans to increase the number of active wells at the Tengiz field from 48 to 90. Production growth is to be boosted by recovery increase at the Korolev field. Tengizchevroil plans to launch experimental-commercial production at the entire field in 2003-04, and bring all twelve wells on-stream in 2005. Tengizchevroil's long-term plans call for raising annual production to 30 million tons by the end of this decade.

In 2001, the joint venture purchased materials, equipment, and parts worth some $1 billion, the share of Kazakh enterprises in these purchases being around 30%. The amount of goods and services purchased from local suppliers will remain largely unchanged in 2002. However, more orders are expected to be awarded to local producers as production at the Tengiz and Korolev fields increases. Preliminary estimates indicate that TCO will have to invest several billion dollars to implement its program to increase oil production.

guarantees quality and financial stability, while the Kazakh partner contributes knowledge of local conditions and a relatively low cost for services.

There are about twenty enterprises in Kazakhstan that manufacture, or have the capabilities needed to manufacture, equipment for the oil sector. (See table.) While production capacities of these plants do not necessarily meet modern requirements technologically, they still are able to offer certain advantages that can attract foreign customers.

These enterprises have at their disposal buildings and installations, production infrastructure, and trained personnel. The state, which owns controlling stakes in these enterprises, is ready to provide investors with property grants and other privileges set forth in the Law on State Support of Direct Investments.

Foreign investors will find gradual modernization of existing Kazakh plants a more cost-effective option compared to construction of brand-new powerful enterprises.

This tactic would also save time that otherwise would be needed to adapt to the Kazakh policy of protectionism in the services sector. After all, launching production of new equipment at an existing plant invariably takes less time than building new production capacities from scratch.

Foreign Investment Surges

Most operators of major production projects are entering, or are about to enter, a full-scale production phase. This year, Astana plans to boost development of the Caspian shelf. The total volume of foreign investments in Kazakhstan, is expected to roughly double from over $3 billion in 2001 to about $6 billion this year, with over two-thirds earmarked for equipment and services. This correlation between capital and operating costs in the oil projects will remain largely unchanged for the coming ten to twelve years. Operators will then have to gradually replace and repair their aging equipment.

This implies that contractors will make most of their money in Kazakhstan's services market during this decade. Obviously, companies able to adapt faster and better than others to Kazakhstan's policy of protectionism in the services sector will do better.

However, production companies too will have to take this policy into account. A high-ranking official in Kazakhstan's Ministry of Energy and Mineral Resources said, "We intend to proceed from the principle of equality of all bidders in the tenders for offshore blocks, that are about to begin. However, all other conditions being equal, in determining the winner we shall consider one more thing, namely, whether or not the oil company undertakes to place orders for most of its equipment and services with Kazakh producers." ❑

KAZAKHSTAN PRODUCERS OF OIL FIELD EQUIPMENT AND SPECIALIZED MATERIALS

Company	Equipment/Material Produced
Belkamit, Almaty	Oil and gas treatment and processing equipment, pressure vessels, cryogenic tanks for liquid gas storage and transportation, specialized fixtures
Montazhinzhiniring, Almaty	Oil processing small-capacity units and miniplants
Imstalkon, Almaty	Production and installation of metal structures, reconstruction and capital repair of buildings and installation, installation of trunk gas pipeline networks installation and repair of pressure boilers, tanks and pipelines
Neftegazmash, Ust-Kamenogorsk	Well-control equipment, casing heads, manual or electrical drive high-pressure gates for well-control equipment
Kaskor-Mashzavod, Aktau	Oil pumps, oil heating furnaces
PZTM, Petropavlovsk	Spare parts for units, gear pulsers, flame cutters burners, oil field cloth
Tsement, Semipalatinsk	Oil-well portland cement, construction cement
Shymkenttsement, Shymkent	Oil-well portland cement, construction cement
Taldykurgankabel, Taldykurgan	Aluminum conductor, wiring of various diameters
Meridian, Almaty	20 mm to 114 mm water and gas pipes
ZIM, n/a	Subsurface oil pulsers and electric immersible pulsers
Ispat-Karmet, Temirtau	Rolled steel and pipes of various diameters
Zhambyl Metalware Plant	Production of oil field tanks
AZTM, Almaty	Production of oil recovery equipment
EMPO, Mangistau	Assembly of electric power substations and drilling rigs

Source: RPI Research

What Kulibayev's Expanding Role Means for Energy Investment in Kazakhstan

Son-in-Law Also Rises

By Tom Whitehouse and Alexander Zaslavsky

Recent government changes in Kazakhstan may look similar to previous games of musical chairs. As before, the prime minister was removed after about two years in office, while most ministers retained their positions. However, this time foreign investors should be aware of deep underlying shifts in Kazakhstani politics that will bear directly on the energy sector.

Family Decline

While significant energy investment opportunities remain in Kazakhstan, many foreign investors have sensed a deterioration in the business environment. President Nursultan Nazarbayev has on several occasions voiced his displeasure with foreign energy companies' failures to pay taxes, employ local labor, and use domestically produced equipment—the accusation that fed through to local levels in the form of zealous environmental inquiries and tax bills. These new challenges have affected both flagship foreign operators, such as Hurricane Hydrocarbons (Canada) and international Karachaganak Integrated Organization, and smaller exploration and service companies.

Kazakhstan's political and economic elite is becoming increasingly assertive, but is itself undergoing major changes. The most important trend in Kazakh politics in the last two years is the emergence of new powerful business players (sometimes referred to as the "oligarchs") and the gradual erosion of the Nazarbayev family's dominance in Kazakhstan's economy. A striking family realignment took place at the end of 2001 after Rakhat Aliyev, the president's "elder" son-in-law, lost his position in the security services. The key reason for Aliyev's downfall was his alleged blunt use of Kazakhstan's security institutions and the tax police to enhance his personal power. His heavy-handed conduct has enabled the emerging business leaders to employ a politically correct "pro-presidential" but "anti-corruption" program for the Democratic Choice of Kazakhstan (DCK) movement launched late last year.

As Aliyev was ousted last November, President Nazarbayev made an unprecedented public statement that his family, like any other in Kazakhstan, was not above the law. Although the formation of DCK was hardly a serious challenge to Nazarbayev's own position, it provoked a string of high-level personnel changes. Most notably, the dismissal of Kasymzhomart Tokayev from premiership in January has been linked to Tokayev's earlier support for Aliyev.

The new prime minister, Imangali Tasmagambetov, by contrast is not associated with any grouping around the family and emerging oligarchs and is seen as a safe pair of hands to run the government. In addition, Tasmagambetov is well placed to resist any further challenges from DCK, as he combines loyalty to the president with connections to several oligarchs behind DCK and even some alleged ties to the exiled former prime minister Akezhan Kazhegeldin.

> ***With his money and energy know-how, therefore, Kulibayev is in a position not just to dominate the energy sector, but also to survive the succession to another president.***

Impact on Energy Sector

While the investment environment in Kazakhstan remains considerably better than in many other oil-rich emerging markets, the new "economic nationalism" displayed by Kazakhstan's authori-

continued on page 40

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Iran Is Poised to Emerge as a Serious Rival to Others' Caspian Gas Export Projects

New Player In Gas World

By Ivan Grigoriev and Maya Nobatova

Russian and Caspian countries have had a hard time negotiating terms of gas sales on foreign markets and agreeing on how to divide these markets. But even these fragile arrangements, as well as export plans contemplated by Moscow and its Caspian neighbors, may be shattered by an ambitious new player—Iran. This country possesses the world's second largest (after Russia) gas reserves, exceeding 20 trillion cubic meters. Iran bases its world markets penetration strategy both on recent progress by its gas production, transportation, and processing projects, and on successes scored in the competition with Russian and Caspian gas exporters.

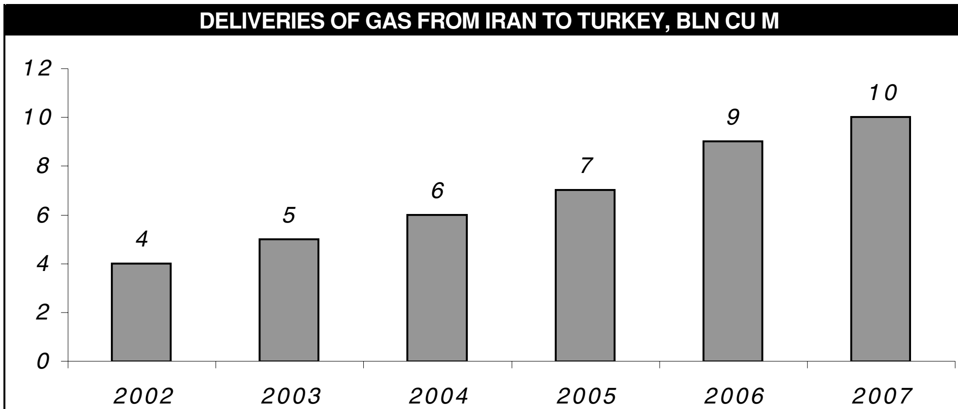
This winter has seen a new force emerge in the gas market of the Eastern hemisphere. This force, Iran, appears to have everything it takes to vie with the former Soviet countries that are now exporting gas. In late 2001, Iran began delivering gas to Turkey via the new, 1,000-kilometer Tabriz-Ankara gas pipeline. Daily volume of gas moved by this pipeline is soon expected to go up to about 9 million cubic meters. Next year, Iranian annual exports may increase to 4 billion cubic meters, with the target being to raise deliveries of gas to Turkey to 10 billion cubic meters per year. (See chart.) Tehran also hopes to use this route to export gas to European countries.

Almost at the same time that Iran was launching its very first deliveries to Turkey, a new source of gas became available to it in the Persian Gulf—the South Pars field. In February 2002, an international consortium of France's TotalFinaElf, Malaysia's Petronas, and Russia's Gazprom—developing phases two and three of the mammoth South Pars offshore field—was due to begin pumping gas into Iranian gas trunk line networks. Until now, all Iranian gas has been consumed domestically (it produces 120 billion cubic meters of gas, consumes 55 billion, and injects 65 billion back to into the formations), and the country is poised to start supplying foreign markets as well.

Indeed, in light of a gradual but steady liberalization of life in Iran, ... production-sharing agreements would become a reality in Iran, and Tehran would obtain foreign partners with stakes in marketing Iranian gas abroad.

The fact that the launch of export shipments and the availability of new commercial gas coincided in time points to a significant new development. This decade will see Iran focusing on gas export projects, and this new course will become the foundation for the development of Iran's gas industry. Other exporting countries in that region and

DELIVERIES OF GAS FROM IRAN TO TURKEY, BLN CU M



Source: RPI Research

their foreign partners in gas projects—such as Britain's BP, operator of Shah-Deniz in Azerbaijan, and Italy's Eni, partner in Russia's Blue Stream project and one of the participants in the development of the Kashagan offshore block in Kazakhstan (the Agip KCO consortium)—would be well advised to treat these new developments as a warning. While they all pin their hopes on the Turkish and European markets, Iran apparently has been effectively outstripping them in the race for the consumer.

Iran's Ambitious Plans

Clearly, Iran intends to emerge in coming years as Eurasia's second largest gas producer after Russia. While in 2001 gas production in Iran totaled 120 billion cubic meters, due to limited demand merely 55 billion cubic meters were actually used (the remainder being injected into formations). Current plans call for boosting gas use to 100 billion cubic meters in 2005.

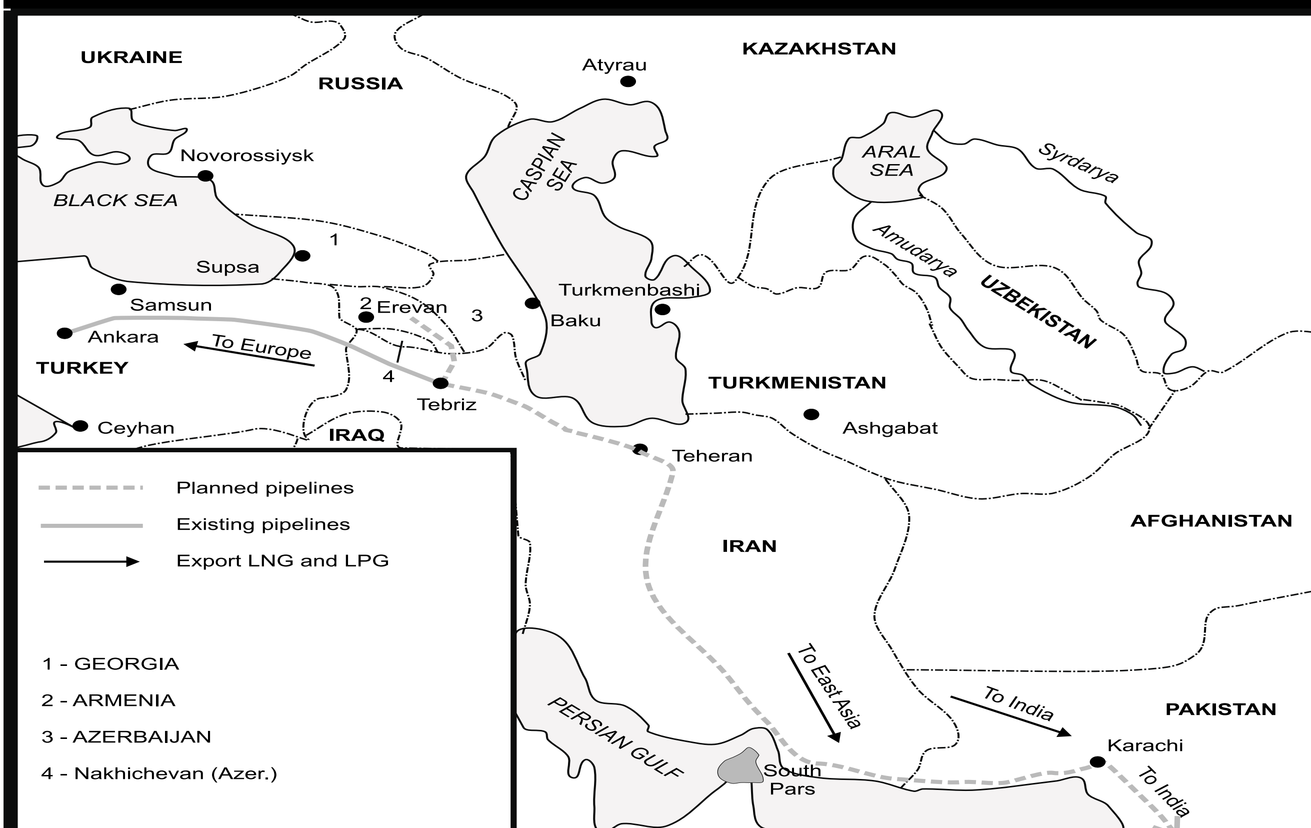
Russian experts estimate Iran's annual export potential by that time will be about 40 billion cubic meters of gas. In one of his interviews, Iranian oil minister Bijan Zangeneh observed that the thrust of Iran's energy strategy is to diversify export revenues by raising gas sales so it is not so dependent on oil export.

It seems the government's new focus on gas is a result of objective conditions rather than officials' subjective ambitions. Iran needs to find markets quickly because its gas production is growing very rapidly. Tehran has been boosting development of the 12-trillion-cubic-meters South Pars fields. Four of the seven hydrocarbon deposits discovered in Iran last year turned out to be gas fields, while the other three also contain substantial volumes of natural gas.

Many Iranian gas projects are implemented with foreign companies on buy-back terms. (See "Foreigners at the South Pars.") This contractual form provides for guaranteed reimbursement of costs to a foreign contractor and contractor's profit paid from government funds.

These projects were launched at different times, and profits generated by older projects should help Iran pay for services provided under later contracts. However, this will become an

PLANS OF IRANIAN GAS EXPORT TO WORLD MARKETS



option only if Iran succeeds in selling its gas production at a profit.

Iran Plans Export Projects

Recent months have seen unprecedented Iranian efforts to market its gas on foreign markets. In late December, Iran and Armenia signed a memorandum for the construction of an export gas pipeline.

Iranian representatives held negotiations with India on gas deliveries either via a future pipeline or in the liquid form. Tehran is working on similar plans targeting the European Union and the Persian Gulf, and is initiating other export projects. (See “Export Here, There, and Everywhere,” and map.)

As a matter of fact, pursuing all these projects, Iran enters into a head-on competition both with Russia and Caspian countries, and with foreign companies involved in gas projects in the FSU.

Turkey has recently decided that it would purchase less than 7 billion cubic meters of gas annually from Azerbaijan, shattering Baku’s hopes of selling at least 15 billion per year. The Gazprom/Eni joint venture may have to reconsider its plans to build the second and third line of the Blue Stream gas pipeline from Russia to Turkey, since Ankara can choose to build up gas imports via an Iranian gas pipeline that is already in place.

Tehran’s drive to extend its network of domestic pipelines westwards, with a view to turning these pipelines into the starting point for new export routes, is just one part of a larger picture. Drawing on foreign assistance, Iran is building gas liquefaction capacities intended to service, first and

Iran Planning More Pipelines And Plants

The existing network of trunk pipelines in Iran (IGAT) consists of IGAT-1 pipeline from the Ahvaz field in the southeast to Astara on the Iranian-Azeri border, and IGAT-2 pipeline connecting southern Iran with Qazvin northeast of Tehran. A gas pipeline originating in southeastern Iran near the border with Afghanistan is connected with IGAT-1 on the Caspian coast near the city of Rasht .

Iran is building another pipeline, IGAT-3. The 510-kilometer line will connect the South Pars and Save southwest of Tehran. The project also calls for the construction of at least six compressor stations and a 75-kilometer underwater spur to move production from South Pars to the Nar-Kangan natural gas processing center.

Iran also announced plans to launch a project of building the IGAT-4 trunk pipeline. The 700- to 800-kilometer pipeline will transport gas from South Pars and the onshore Tabnak field in the north of the country. IGAT-4 was initially intended to supply the domestic market.

However, at present Tehran plans to use the new gas pipeline to build its export potential. Initially, IGAT-4 will be used to transport 110 billion cubic meters of gas a day and this volume will go up to 193 billion. 25 billion cubic meters will supply domestic demand, the rest will be shipped for export.

Expanding its export transport capacities, Iran is also focusing on processing. In January 2000, Iran launched construction of a gas-processing complex in Eselueh in the Persian Gulf. The complex that will produce 8 million tons of liquefied gas per year is constructed by France’s Total and South Korea’s Hyundai.

According to Khamdollah Mohammed Nejat, director of the National Gas Company of Iran, four more gas-processing plants are to be built in Iran by 2005. The plants are to be built in Khuzistan, Ilam, Phars, and Khorastan regions. Investments in the construction of the plants will total $1.5 billion.

Export Here, There, and Everywhere

Boosting gas production projects, Iran also has ambitious plans to develop export routes to deliver its gas to major world markets.

In December 2001, Iran launched the first export project delivering gas to Turkey via a new pipeline, Tebriz-Ankara. Under an agreement signed by the two countries in 1996, Iran will supply 2 billion cubic meters of gas and will eventually raise the volume to 10 billion cubic meters.

Tehran is also considering Turkey's proposal to export Iranian gas to European countries via Turkey. Greece has also expressed interest in the project. According to Iranian experts, Iranian gas can successfully compete with deliveries from Russia, which Europe depends upon at present.

In late 2001, Tehran signed yet another agreement on gas export shipments. On December 25-27, in the course of the visit by Armenian president Robert Kosharian, the two countries signed an agreement on the construction of an Iran-Armenia gas pipeline, estimated to cost $120 million.

During the initial stage of the project, Iranian gas export will stand at 1 billion cubic meters per year. Gas will be delivered by a pipeline to be built in Armenia and Iran, with respective sections of 40 kilometers in Armenia and 100 kilometers in Iran.

This winter, in the course of a meeting of the Iran-India Commission for the Iran-Pakistan-India pipeline construction project, held in Delhi in January, Iran was able to give a boost to another export pipeline project. The sides agreed to complete the feasibility study for the project by mid-2002.

The pipeline will run on the Arabian Sea coast to Pakistan and India. The cost of the project is estimated at $3.5 billion. The project will be implemented by a consortium consisting of the Ministry of Petroleum of Iran, Malaysia's company Petronas, and India's Relines. India is expected to import Iranian gas over 30 years.

Pushing ahead its gas pipeline projects, Tehran is also considering plans to launch gas-liquefaction operations. Iran intends to export liquefied gas to the world's largest markets, Europe, India, and Asian Pacific countries.

foremost, Europe, Southern Asia, and the Pacific region—the same markets targeted by east Caspian countries. (See "Iran Planning More Pipelines and Plants.") All these countries have plans to launch gas liquefaction projects. Should Iran be able to start exporting liquefied gas before other Caspian countries, those rivals will have a much harder time finding buyers for their output, be it to the west, south, or east.

Good News for Foreigners?

Tehran has already made inroads into the Turkish market at the expense of Russia and other Caspian countries. Armenia is negotiating a switch from Russian to Iranian gas, and Ukraine is signaling that it would like to follow suit. So far, Iran has been going it alone in vying with competitors in the foreign markets. However, this situation may change should Iranian reformers succeed in their bid to scrap the constitutional provision that prohibits foreign ownership of property in Iran. Indeed, in light of a gradual but steady liberalization of life in Iran, changes of this kind are quite feasible, in which case production-sharing agreements would become a reality in Iran, and Tehran would obtain foreign partners with stakes in marketing Iranian gas abroad.

To a certain extent, implementation of Iranian export plans is contingent on the positions adopted by transit countries. Iran can export gas by pipe via either Turkey or Russia. Both Moscow and Ankara are known to have allowed transit on condition that they get a role in selling gas pumped via their territories. Clearly, should Caspian exporters offer better terms of joint sales than Tehran does, Iranian gas may run up against considerable obstacles. The situation is very much the same when it comes to competing projects to export gas from Turkmenistan and Iran to India through Pakistan.

However, none of the Caspian states, including Russia, has the political leverage to thwart export of liquefied gas from Iran. What is more, unlike other Caspian states, Iran has access to open seas and hence to any market in the world. Producers and exporters of Caspian liquefied gas will be able to compete with Iran only in those markets that lie closer to them than to Iran. For example, Caspian producers can count on doing well in eastern, central, and northern Europe, while Iranian gas may prove more competitive in southern Europe, Asia, and the Pacific region, due to lower transportation costs.

All this suggests that in the coming years companies involved in gas production projects and export of gas from the FSU increasingly will have to reckon with the Iranian factor. Iran is poised to offer large volumes of gas in the world market and for that reason producers, battling for consumer markets, will have to trim prices. This, in turn, implies that their initial profit projections stand a very slim chance of ever materializing. ❑

Foreigners at the South Pars

The largest project in the Persian Gulf area, the South Pars gas field has been divided into 25 phases. Development of the first eight phases will require investments estimated at about $8 billion.

The operator of the second and third phases of the South Pars is an international consortium of France's TotalFinaElf (40%), Malaysia's Petronas (30%), and Russia's Gazprom (30%). The contract was signed in September 1997.

In July 2000, Italy's Eni won the tender for the development of the fourth and fifth phases of the deposit. It will implement the project in partnership with Iran's Petro+ars. Eni owns a 60% stake in the project, while the Petropars share is 40%.

In late 2000, British Enterprise Oil signed a contract with Petropars on joint development of phases six, seven, and eight of the field. The British company received a 20% stake in the project. Norway's Statoil, currently engaged in negotiations with Petropars, has also expressed interest in taking part in the project.

The winner in the tender for the development of phases nine and ten of the project will be announced in late March. The bidders in the tender are consortia led by Korea's LG and France's Technip.

The bidders for phases eleven and twelve currently include TotalFinaElf, Statoil, BP (UK), and Eni.

Caspian Countries Mull Whether a Gas Version of OPEC Makes Economic Sense

Cooperation or Competition?

By Ivan Grigoryev

This decade is shaping up as a period of upheavals and change both in the gas consumption markets and in the production and export sectors. Europe, the world's largest gas market segment, launched liberalization aimed at throwing its doors wide open for a larger number of competing suppliers. A major rise in gas production and export is forecast for the Caspian region and adjacent countries. These factors may combine to nudge exporters towards giving deeper discounts to buyers. Conversely, these prospects do not bode particularly well for revenues of participants in gas projects; at the end of the day, they may fall far short of planned targets.

Sellers of gas are looking for ways to resolve contradictions that have been multiplying since the European Union began to implement its Gas Directive. The program to boost competition among suppliers is being actively implemented (see "European Union's Gas Directive in Action"), leaving exporters frustrated. The second International Natural Gas Conference, held in early February in Algeria, was attended by representatives of countries ranked among the major producers, exporters, and consumers of gas. One idea discussed at the conference was establishment of a gas exporters' version of the Organization of Petroleum Exporting Countries (OPEC).

FSU countries that sell hydrocarbons seem to be increasingly attracted to the notion of coordinating their export policies. Speaking in December at the summit of CIS leaders, president of Kazakhstan Nursultan Nazarbayev observed that it would be advisable to set up an organization of oil and gas exporters from the FSU. In mid-January, Russian president Vladimir Putin proposed a Eurasian gas alliance to Turkmenistan's leader, Saparmurad Niyazov. The gist of the proposal is this: Russia, Turkmenistan, Kazakhstan, and Uzbekistan would cooperate in gas production, transportation, and export under the auspices of the world's largest gas company, Russia's Gazprom.

Caspian gas producers can benefit from the proposed alliance because it should give them something that they lack at present: access to Russian export gas pipelines that move gas to Europe. Gennady Krasovsky, an analyst with the NIKoil investment and banking group, observed, "Chances that an OPEC-type gas organization with a worldwide outreach will ever be set up are slim, because exporters do not gravitate to a common center. A Eurasian alliance is an entirely different matter. Gazprom is attempting to establish its control over gas flows from Central Asian countries in order to prevent ungovernable competition on their part. Gazprom is acting on the principle that, if there is a development that you cannot prevent, then try to lead it. Thus, Caspian countries are faced with a choice: either cooperate with Gazprom and among each other, or face stiffer competition."

Two Roads to One Market

As E&P projects in the Caspian countries, including Russia and Iran, gain momentum, this choice becomes vital for gas producers and importers alike. By 2010, Kazakhstan intends to raise its annual gas exports eightfold; Turkmenistan plans to double its export capacity; Gazprom will boost its export shipments by 50%; and Azerbaijan and Iran are working on ambitious plans to hike gas exports from nearly zero in 2001 to over 10 billion cubic meters over the period 2008-10. With gas consumption in European countries expected to go up from 394 billion cubic meters in 2001 to 460 billion in 2010, all these producers target Europe as their principal market.

Some of these producer countries have already wound up bitterly competing with each other. In 2000, Baku interfered with Ashgabat's plans to build a trans-Caspian gas pipeline to deliver 30 billion cubic meters of gas annually to Turkey and Europe. In 2002, Azerbaijan will

PREDICTED GAS EXPORT FROM CASPIAN REGION, RUSSIA AND IRAN IN 2001-2010, BLN CU M

	2001	2005	2010
Azerbaijan	0	3	16
Kazakhstan	3.7	10	25
Turkmenistan	55	85	100
Russia (to Europe)	126	150	190
Iran (to Turkey)	0.009	7	10

Sources: SOCAR, Government of Kazakhstan, Government of Turkmenistan, Gazprom, RPI Research launch construction of the Baku-Erzurum pipeline to export over 30 billion cubic meters annually of Azeri gas, and Baku plans to challenge Russia, currently working on its Blue Stream project to deliver 16 billion cubic meters of gas annually to Turkey. (See "Baku Is Engineering European Breakthrough.")

One result of the escalating competition has been Azerbaijan's continual insistence on providing Turkish buyers with deep discounts. However, in the view of BP (UK)—the largest producer and exporter of gas operating in Azerbaijan—such pricing undercuts the economics of Azeri projects.

Another European Route

Instead of building new competing gas pipelines, Kazakhstan and Turkmenistan have apparently chosen a different road that should lead them to European markets: to establish co-operation relations with the owner of existing pipelines. In late 2001, Moscow and Astana signed an Agreement of Cooperation in the Gas Sector calling for joint exports via Russian pipes. (See "Russia, Kazakhstan Set Gas Co-operation Accord," *Caspian Investor*/ February '02.) Under the deal, international Karachaganak Integrated Organization (KIO), JV Tengizchevroil, the Agip KCO consortium and other investors operating in Kazakhstan received guarantees of gas sales.

By mid-2002, Moscow and Ashgabat plan to sign a similar document that will open access to European markets to Turkmen gas, while providing Russia with an opportunity to play a role in Turkmenistan's gas export and to take part in E&P and service projects in that country.

These two options, available to suppliers of new larger volumes of gas, clearly show the price that they will have to pay to obtain their own market share. Baku has to invest in construction of new gas pipelines and offer discounts to gas buyers in order to force competitors to make room. Astana and Ashgabat have to share a portion of their gas export profits with Russian Gazprom in exchange for a share of its European markets.

Market Situation and Strategy

It would seem that the Azeri tactic is more in tune with the current gas policy of the European Union (EU) that advocates discounts to buyers and opposes long-term contracts. After all, future co-operation between Gazprom and Central Asian countries will rest on a solid foundation of long-term strategic factors. Mered Mamedov, head of the Department of Foreign Economic Relations in the Turkmenistan's Ministry of Oil and Gas Industry and Mineral Resources, told *Caspian Investor*: "Setting up the gas alliance calls for consolidation, support, investments. Turkmenistan cannot afford to invest in the development of transport infrastructure, while Russia can. Joint development of deposits is a possibility."

Combined gas reserves are estimated at over 20 trillion cubic meters in Turkmenistan, and in excess of 6 trillion cubic meters in Kazakhstan. Most of these reserves occur in untapped structures, which implies that these countries need huge investments and new investors, including Russians. In order to utilize their vast gas reserves, Astana and Ashgabat must put in place a mechanism of long-term cooperation,

European Union's Gas Directive In Action

The objective of the European Union's Gas Directive, adopted June 22, 1998, is to form a unified market across the continent. It also covers Eastern European countries that plan to join the union and are eager to meet its requirements as a prelude to membership, as well as non-EU members that are participants in the European Economic Zone, such as Norway, Iceland, and Liechtenstein.

The directive seeks to accomplish three goals: to encourage competition to ensure better services for consumers, reliability of delivery, and protection of the environment. With these goals in mind, the directive instructed all parties concerned to abolish by August 10, 2000, regulation of prices and selection of suppliers for all gas-fired power plants and consumers requiring in excess of 25 million cubic meters of gas per year, opening up for competition at least 20% of the market.

By August 10, 2003, entities annually consuming in excess of 15 million cubic meters of gas will also be able to choose suppliers independently. At this stage, competition will be extended to cover at least 28% of the market in each country. By August 10, 2008, liberalization will include nations with annual consumption of over 5 million cubic meters of gas, and at least 33% of the market.

So far, milestones set forth in the directive have been reached ahead of schedule. In August 2000, up to 80 % of the European market was already open for competition. For example, in Great Britain and Germany, competition encompasses 100% of the market, while complete deregulation is expected to be fully implemented by 2008 in Austria, Italy, the Netherlands, Spain, and Sweden.

Baku Is Engineering European Breakthrough

The Baku-Tbilisi-Erzurum pipeline construction project is to be launched in early 2002. The Azerbaijan-to-Turkey pipeline, with annual throughput capacity of 30 billion cubic meters of gas, will cost about $3 billion to complete. An international consortium of companies developing the Shah-Deniz field, headed by BP (UK), will be formed to implement the project.

BP, operator of the Shah-Deniz development project, plans to launch work on the field whose reserves are estimated at 700 billion cubic meters of gas and 300 million tons of condensate, in 2003. In 2004, the consortium plans to extract 2 billion cubic meters of gas that will be pumped via the new pipeline to Erzurum. Annual volume of delivery to Turkey will gradually grow to 6.6 billion cubic meters. During 2007-08, delivery will remain at the same level. However, Baku, Ankara, and BP plan to use the gas pipeline to deliver Azeri gas to Europe via Turkey.

In addition to Shah-Deniz, the Azeri, Chyrag, and Gyuneshli (AChG) fields will serve as another source of gas for the pipeline. Combined gas reserves in these fields are estimated at over 130 billion cubic meters. In March 2002, the Azerbaijan International Operating Co. (AIOC) is to begin drilling a well at Azeri, which will effectively mark the launch of phase-1 in full-scale development of AChG. During phase-1, the volume of utilized gas will go up from some 900 million cubic meters to 3 billion in 2005. Growth in oil production at AChG will be accompanied by an increase in production of associated gas, which is expected to peak to over 6 billion cubic meters in 2008.

such as an alliance with other suppliers. Azerbaijan boasts only gas reserves of less than 1 trillion cubic meters. These are being developed by established consortia of investors implementing the Shah-Deniz and Azeri-Chyrag-Gyuneshli projects. For that reason, Baku does not have to fret about a long-term, multi-component gas strategy needed to organize a multitude of export and E&P projects.

However, Azerbaijan's resolve to go its own way adversely affects its market share because how much it can ship to export markets does not even remotely compare with the volumes that can be delivered by Gazprom, let alone by all possible participants in a Eurasian alliance. This implies that Baku, pursuing its policy of price discounts, can adapt better than other CIS exporters to current market prices, but is unlikely to exert any noticeable impact on the formation of gas prices in the European market. Participants in production projects in Kazakhstan and Turkmenistan will be more sensitive to terms and conditions hammered out within an alliance, than to gas prices set forth in contracts signed by their competitor Azerbaijan.

Cooperation Is Questionable

These terms and conditions are being worked out against the backdrop of diverging interests of the parties involved. Putin and Niyazov were able to agree on the need of an alliance, but they have so far been unable to reach agreement on the price of Turkmen gas. Moscow refuses to pay $42 per 1,000 cubic meters, while Mamedov predicts gas prices will go up, not down. NIKoil's Krasovsky believes Gazprom's economic interests consist in denying Caspian gas access to Europe. In addition, Russian companies, such as LUKOIL, cherish plans of becoming major gas suppliers and do not want to share markets with Kazakh and Turkmen exporters. All these factors have a negative impact on cooperation prospects in the efforts taken by CIS countries to divide European gas markets.

Relations with a Eurasian alliance have a chance to improve, should exporters try to cooperate in other markets besides Europe. For several years, Turkmenistan has been attempting to organize export shipments of 60 billion cubic meters per year of its natural gas to India. Since the fall of the Taliban regime in Afghanistan, political obstacles that held back the project have disappeared. However, Unocal's (US) plans to build a gas pipeline from Bangladesh to New Delhi can thwart Ashgabat's aspirations. Turkmenistan might do better to invite rivals of the US corporation to join its Indian project: EU, Japanese, and Russian companies might respond positively to to an opportunity to join a lucrative project to produce gas and export it to India. Moscow would be more favorably disposed to Ashgabat and its European plans if Russian companies played a role in that project.

The huge scale of new projects marking progress in the Caspian countries and their vicinity, a rash of political changes, such as the EU Gas Directive and the toppling of Taliban, are influencing export strategies of the post-Soviet states. Whether the Caspian gas export problem will be resolved successfully may well depend on the ability of these states to find solutions. Evaluating prospects and risks of gas projects in Central Asia, foreign companies should first and foremost weigh one factor: whether a particular state has guarantees from other gas countries that its gas production will have access to export markets. ❑

Development of Azeri Gas Projects Opens New Opportunities for Foreign Companies

Energizing Gas In Azerbaijan

By Maya Nobatova

Azerbaijan is poised to rev up gas production and turn from being a gas-importer into an exporter. Development of the Shah-Deniz field and preparations for full-scale mining of the Azeri, Chyrag, and Gyuneshli fields, harboring hundreds of billions of cubic meters of gas, will begin in 2002. Three years later, gas will start flowing for export that will over time exceed 20 billion cubic meters annually, and annual domestic gas consumption will grow from 9 billion in 2001 to 16 billion cubic meters. Baku is set to revitalize the gas sector on the foundation of cooperation with foreign companies, and these plans open diverse and broad opportunities for them.

This year will see the beginning of large-scale transformations in Azerbaijan's gas sector. The government plans to restructure Azerigaz state gas company, shift the spun-off enterprises to joint-stock ownership (see table) and then privatize them. Azerbaijan's Ministry of Economic Development, which deals with privatization, is supposed to transfer into private hands distribution networks in large cities and industrial centers.

The government's plans to privatize the gas sector coincide with the start of its vigorous development: a considerable boost in output and construction of various pipelines, storage facilities, and compressor stations. (See "Azeri Gas Sector Development Plans" and chart.)

So far, the limited potential of the gas transportation system, gas shortages, and cut-rate tariffs for the population typify the situation in Azerbaijan. Similarly, consumption and revenues from gas trade on the domestic market are not very high.

The drive to implement new projects in the gas sector pursues a dual purpose. First, they should create a service market valued at several billion dollars. Second, they are capable of significantly boosting Azeri gas consumption, making this market far more attractive to traders. The new terms of developing the industry's gas sector are particularly favorable for companies contemplating involvement in various sectors of the gas industry.

Share-Sale Plan Postponed

Following the endorsement last spring by Azeri president Geidar Aliyev of the Program for the Second Stage of Privatization, which targets the sale of large industrial companies, the government started negotiations with the World Bank. Baku wants the bank to act as a consultant in privatizing gas distribution networks that are currently operated by Azerigaz.

Earlier, the government planned to sell up to 80% of shares in gas distribution joint-stock companies. But now it is set to transfer gas distribution capacities to private companies as concessions for 20–25 years.

Earlier, the government planned to sell up to 80% of shares in gas distribution joint-stock companies. But now it is set to transfer gas distribution ca-

FORECAST OF GAS PRODUCTION GROWTH IN AZERBAIJAN, BLN CU M

Source: RPI Research

AIOC Project Development Plans

In March, the Azerbaijan International Operating Co. (AIOC) is to start drilling a well at the Azeri deposit. This will effectively mark the launch of phase-1 of full-scale development of the Azeri-Chyrag-Gyuneshli (AChG) contract area.

Implementation of phase-1 calls for development of the central portion of the Azeri field, which should help raise annual production of oil from the current 5.8 million to 24 million tons. Production is scheduled to begin in 2005.

A permanent drilling rig, which will be employed to drill 48 wells, is to be constructed on the field during phase-1. In addition, a new oil pipeline is to be built from the Azeri field to the Sangachal terminal, which is also slated for a capacity upgrade.

Last November, AIOC signed six contracts totaling $750 million with foreign companies that will act as contractors during phase-1. Investments in phase-1 implementation are estimated to total $3.4 billion.

According to David Woodward, president of the consortium, at the end of the third quarter of 2002, AIOC expects to receive AChG shareholders' authorization to launch phase-2. In late fall of 2001, the participants in the project approved the concept of phase-2 that will consist in the development of the western and eastern portions of the Azeri field. Production of oil under phase-2 is to begin in mid-2006.

Two other projects took off in early 2002: development of the Shah-Deniz field, and construction of the Baku-Tbilisi-Erzurum export gas pipeline. Project shareholders authorized its launch after Georgian parliament ratified a package of Azeri-Georgian agreements in December.

Prior to the launch of the gas pipeline construction, a pipeline consortium, to be formed in 2002, will perform detailed engineering works along the route of the future gas pipeline. BP (UK), operator of the project, plans to start the development of the Shah-Deniz field in 2003.

The first 2 billion cubic meters of gas that will be pumped via the new pipeline are to be extracted by year-end 2004. In 2007-18, with annual production at Shah-Deniz averaging 8.1 billion cubic meters, 6.6 billion cubic meters of gas will annually be delivered to Erzurum.

pacities to private companies as concessions for 20-25 years. The concessionaires will have to upgrade networks, install gas meters and other equipment, and increase gas payments. Privatization of an enterprise will become possible upon expiration of the concession term. Authorities backed away from the shares-sale game plan to extend their influence over the conduct of business by an investor.

There are also encouraging signs in preparations for privatization. Azerigaz president Alikhan Mamedov said in a press conference in Baku that he proposed to the government to triple the gas tariff for the population. The tariff would rise from 35 manat ($0.01) to 105 manat ($0.02) and the sale of gas to residential users will cease to be a loss-making business.

Currently, Azerigaz buys fuel from the State Oil Company of the Azerbaijan Republic (SOCAR) at 65 manat. The public consumes roughly half of the entire volume of gas being sold, and the size of tariffs on it is of tremendous importance to distribution companies.

Nonetheless, would-be concessionaires should be prepared for expenses surpassing revenues. The concessionaires will most likely shoulder them by paying off part of Azerigaz's debts to SOCAR and the state budget, which piled up due to low gas prices.

Concessionaires will have to install gas meters for consumers; over 400,000 will be required for Baku alone. Possibly, companies that earn money in other sectors of Azerbaijan's gas industry will be able make it through the tough first years more smoothly than others.

Azeri Gas Sector Development Plans

Baku is currently completing the gas system rehabilitation project funded by the World Bank. As part of the project, this year the state company Azerigaz intends to hold three tenders to choose suppliers of gas equipment that the company will subsequently purchase. The company also has plans to buy new pipes that will be used in the overhaul of the gas distribution system in the city of Baku. The project is estimated to cost $20.4 million.

New gas-measuring stations are to be commissioned in June 2002 on the Azeri-Georgian and Azeri-Russian borders in Gazah and Shirvanovka. In January 2002, Azerigaz signed a contract with RNG Azerbaijan Ltd., which won the tender to construct the stations on a turn-key basis. The tender is stipulated in the agreement that Azerbaijan had signed with the European Commission in August 2000. Azerbaijan received $1.7 million from the European Commission's INOGATE-98 program to carry out urgent measures needed to rehabilitate its gas distribution system.

Overhauling its gas system, Baku at the same time is actively promoting gas storage facilities and trunk gas pipelines reconstruction projects. This year Azerigaz intends to begin reconstruction of the Kalmas and Garadag underground gas storage facilities on the Apsheron peninsula. The program is aimed at upgrading the storage capacity of the Kalmas gas storage from 350 million cubic meters to 1.5 billion cubic meters, while the capacity of the Garadag gas storage will be raised from 200 million cubic meters to 3 billion cubic meters of gas. The capacity upgrade projects were designed by France's Sofregas. Works involved in the programs are estimated to cost over $270 million.

Baku recently started an overhaul of the Shirvanovka-Gazi-Magomed-Gazah gas pipeline system in the area bordering on Russia and Georgia. Phase-1 of the project, aimed at raising the throughput capacity of the Azerbaijan-Russia gas pipeline from 17 million to 22 million cubic meters per day at 30 atmospheres, is to be completed in February. Implementation of the project will enable Azerbaijan to import up to 4 billion cubic meters of Russian gas in the current year. Modernization of the Azerbaijan-Georgia gas pipeline (phase-2 of the project) is slated for completion in March.

Besides gas infrastructure modernization projects, Baku's plans also include construction of two new gas pipelines. The first is to be laid on the Caspian seabed from the oil and gas treatment plant at the Neft Dashlary field to the oil and gas repressuring station at the Bakhar field. With the $32-million pipeline onstream, the Azerbaijan gas processing plant will annually receive over 1 billion cubic meters more feedstock than before.

Construction of the second 90-kilometer Garadag-Digiah-Severnaya District Power Plant will be financed by two loans totaling $294 million provided by the Japanese International Cooperation Bank (JBIC). Four Japanese companies are bidding for the project. Azerigaz is currently negotiating with the Mitsui/Toyo Engineering alliance.

Foreigners Expand Activities

Some companies' activities already signal bids to extend their activity in Azerbaijan. Britain's BP and Russia's Itera typify this approach. BP, operator of the Shah-Deniz and Azeri-Chyrag-Gyuneshli projects and organizer of gas export to Turkey from Shah-Deniz, is going to remodel the Kalmas and Karadag gas storage facilities. Cost estimates for reconstruction run to $270 million, and BP hopes to land a multi-million-dollar contract to modernize gas storage facilities to house Shah-Deniz gas before it is fed into a pipeline to Turkey.

Itera has similar plans: it is pushing for involvement in revamping the Kalmas and Karadag storage facilities as a contractor. In addition, Itera is eager to be a contractor in building a $2.9-billion, Baku-Erzurum gas pipeline to Turkey and also a shareholder of the international consortium for its construction and operation. Itera hopes that Baku will take into account its position as the current supplier of sizable gas volumes to Azerbaijan. Between 2002 and 2004, Itera will annually sell 4 billion cubic meters of Russian gas to Azerbaijan and is eager to enter as many projects related to the gas sector as possible.

According to Itera spokesman Nikolai Semenenko, the company's plans extend beyond services projects. The Russians are also eyeing possible participation in the privatizaton of

ENTERPRISES OF STOCK COMPANY AZERIGAZ UNDERGOING PRIVATIZATION

Company Name	Profile
Stock Company Azgazsazlama	engineering setup
Plant Bakgazmash	manufacture of household gas stoves
Directorate Gazeletromashazlama	engineering setup, equipment repair
Production Combine, Balakhany	asphalt plant
Giandja Machine-Building Plant	gas industry equipment
Stock Company Seyarmekhgaztikinti, Garadag District	construction enterprise
Bakygaz*	gas distribution enterprises
Gianjgaz*	gas distribution enterprises
Sumgayytgaz*	gas distribution enterprises

* Decision on privatization of gas distribution enterprises is pending.
Source: RPI Research

Azerbaijan's gas distribution networks. Itera has already strengthened its foothold in the gas market of neighboring Georgia, first acting as a gas exporter and then as a wholesale trader on the domestic market. It is now trying to acquire gas distribution business and gas construction projects in Azerbaijan and Georgia.

The success of this strategy of entering the national gas sector and then broadening activities is seen as a guidepost for other companies. The implementation of projects enables investors to foster ties with authorities and governmental agencies, and to accumulate funds and political capital, to create a base for later projects. A company may thus trim expenses on organization and initial development, reduce sums drawn from its central corporate budget, which includes revenues from all company projects, and use cash earned in other projects in the same country.

New Business

The tactic of organizing company projects in allied spheres is being applied in a widening scope in the fuel and energy sector of the Caspian region. Russia's LUKOIL, in developing E&P projects in Azerbaijan, simultaneously focuses on expanding its network of its gasoline service stations there. Conoco (US), participating in tapping Azerbaijan's Zafar-Mashal block, plans to build a terminal to transport liquefied gas and arrange its export. In neighboring Georgia, various foreign companies are keen to concurrently participate in gas and electricity projects.

By these actions, companies react to a situation in which room for new E&P projects is gradually shrinking and competition is increasing. Investors are forced to move into new spheres to boost profits. Possibly, developments in Azerbaijan's gas industry in coming years will show that companies that diversify will find it easier to achieve success in changing conditions. ❑

Azerbaijan Introduces Several Changes in its Tax Code; Income Tax Lowered

Baku Tackles Tax Changes

By S. Alum Bati and Jeyhun Bayramov

The Azerbaijan Republic brought in the New Year by introducing a number of important tax and social security changes. The changes to the Tax Code, 2000, take effect from January 1, 2002[1]. Last year also saw a number of other important tax and social security changes. The most significant of them are considered in this article.

Income tax

Income tax reduced: the income tax bands have been modified by removing the 20% and 30% bands[2]. There are now four tax bands (0%, 12%, 25%, and 35%). The thresholds have also been raised. The revised income tax table for employees and the self-employed are as follows (see chart 1 below).

The income tax rates for annual income (e.g. self-employed income) are as follows (see chart 2 below).

At the time of writing, the US dollar was equal to approximately 4,800 Azeri manats (AZM).

- *per diems for sailors*: daily allowances payable to seafarers in lieu of business trip expenses within the norms provided by relevant executive authority are no longer taxable[3];

- *sick leave payments*: sick leave payments are explicitly made taxable[4]. Although, previously, the tax authorities maintained this position, there was a good argument based on Article 102.1.4 of the Tax Code, 2000, that sick leave payments were not taxable.

Chart 1

Taxable monthly income (AZM)	Tax
Up to 100,000	No tax
100,001-1 million	12% of amount exceeding 100,000
1 million-5 million	108,000 + 25% of amount exceeding 1 million
Over 5 million	1,108,000 + 35% of amount exceeding 5 million

Chart 2

Taxable annual income (AZM)	Tax
Up to 1.2 million	No tax
1,200,001-12 million	12% of amount exceeding 1.2 million
12,000,001-60 million	1,296,000 + 25% of amount exceeding 12 million
Over 60 million	13,296,000 + 35% of amount exceeding 60 million

Profits Tax and Tax on Entrepreneurs:

- *Capital investment relief* (essentially a double deduction for capital investment) has been abolished[5];

- *Accelerated depreciation*: as an alternative to standard depreciation, the taxpayer may elect to apply accelerated depreciation of up to four times the standard rate for capital investments[6].

- Depreciable fixed assets (i.e. assets with a useful life of more than one year) are now divided into seven (previously five) classes[7]:

1. Buildings and structures – 10% p.a. on a reducing balance basis.
2. Machinery, equipment and computing technology – 25% p.a. on a reducing balance basis.
3. Motor vehicles – 25% p.a. on a reducing balance basis.
4. Working animals – 20% p.a. on a reducing balance basis.
5. Geological survey costs and works preparatory to the extraction of natural resources (including the costs of intangible assets incurred in order to acquire the right to carry out geological surveys and the treatment or exploitation of natural resources[8]) – 25% p.a. on a reducing balance basis.

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6. Intangible assets with a life of more than one year[9] –at 10% p.a. on a reducing balance basis. Previously, this method was used only where it was not possible to determine the useful life of the asset – in other cases intangible assets were depreciated on a straightline basis over their useful life.
7. Other fixed assets[10] – 20% p.a. on a reducing balance basis.

Classes three and four are entirely new and class six has been modified as described above.

Investment in assets in the above classes (other than classes four, five, and six) may be accelerated by up to four times the specified rate.

Depreciation is calculated in respect of each class of assets, with each building/structure being regarded as a separate class. The residual book value of any class at the end of the previous tax year is increased by purchases during the year or decreased by sales. The relevant depreciation rate is then applied to that class, thus giving the amount of deductible depreciation for the year.

The accelerated depreciation is not available for the following:

- Entities directly engaged in production activities prohibited by law.
- Capital investment made out of non-refundable financial aid and grants.

Withholding Taxes

Withholding tax rates applicable to 'other income' from Azeri sources has been decreased from 15% to 10%[11]. This amendment results from a contradiction between two original provisions of the Tax Code, 2000, one stating that income from the lease of movable and immovable property and royalties was subject to withholding tax at 10%[12], and the other suggesting such income was subject to withholding tax at 15%[13]. This has now been resolved, with effect from January 1, 2002, by an amendment to the code reducing the second rate to 10%[14]. This eliminates confusion arising, in particular, in relation to withholding tax on lease rentals.

Value added tax

- *Registration threshold*. The monetary threshold for value added tax (VAT) registration has been lowered and VAT registration is now obligatory for all persons whose taxable supplies for the last three months exceed 300 times (previously, 1,000 times) the non-taxable band of monthly salary (AZM 30 million)[15];

- *Zero-rate VAT*. VAT at the zero-rate in relation to diplomatic missions and international cargo and passenger carriage will only be applied on the basis of reciprocity[16];

- *Credit for input VAT*. Credit for input VAT (i.e. VAT on payables) may now only be taken once it has been paid[17]. Previously, credit was available on an accruals basis i.e. when an invoice was received.

- *VAT – rules for alternative VAT calculation determined*. Alternative methods for calculating VAT have now been defined for certain particular types of transactions (e.g. sale of goods and services through agents, lotteries etc.)[18] Transactions carried out by an agent are to be considered as performed by the principal (unless the principal is a non-resident and not registered for VAT purposes in Azerbaijan, in which case the transaction will be treated as being one carried out by the agent). A VAT-payer who conducts business both through an agent and directly must separately identify such transactions in his records.

- *VAT recovery procedures for diplomats*. The tax authorities have introduced new rules for diplomatic missions and diplomatic agents to assist them in the recovery of VAT. The new procedure does not constitute a normative legal act and, therefore, does not have the force of law[19]. Where a diplomatic mission or diplomatic agent wishes to recover VAT incurred in a transaction, the new rules require the mission to obtain a tax identification number and to submit quarterly reports appending, inter alia, tax invoices and receipts. Repayments of VAT will be made within 45 days or interest of 0.05% per day of delay will be paid. The procedures have an effective date of January 1, 2001 but were only made known to diplomatic missions in November 2001.

Social Security

The Tax Code 2000, in its early drafts, embraced both social security contributions as well as payments more generally accepted as taxes. However, the promulgated version of the Code did not encompass social security contributions though the draftsman failed to amend the definition of 'tax' to accord with the omission. The definition of a 'tax' has now been changed so that it no longer embraces contributions to State funds. One of the difficulties created by the previous definition was that the 1% levy on corporate profits payable to the Invalid Fund was fully within the definition of 'tax' yet the Code did not authorize the levy. This anomaly has now been removed, although, in this particular instance, it has lost its importance in any event as the obligatory contributions to the Invalid Fund have effectively been repealed[20].

Social security contribution rate changes: A new law amending the law On Social Insurance, 1997, became effective as of January 1, 2002. It has introduced important changes by, inter alia, effectively amending the rates of social insurance contributions. Most importantly, social insurance contributions payable by employers has been reduced to 29% (previously 30%), whereas employees' contributions have been increased to 1.5% (previously 1%).

Compulsory registration for social insurance. The law On Individual Registration in the State Social Insurance System, 2001, was signed by the President on February 27, 2001 and published on December 29, 2001. It sets out rules and procedures for the collection and registration of information on each insured individual for the protection of their pension and social rights.

The State Social Protection Fund has been designated as the relevant executive authority responsible for carrying out the registration of individuals. Additionally, the law defines, inter alia, the form and content of individual registration, and the rights and obligations of insured individuals, employers and the State Social Protection Fund. The State Social Protection Fund is required to issue a State Social Insurance Certificate, which should be shown to a new employer upon hiring.

Employment Fund contributions abolished. Employers' compulsory contributions to the Employment Fund of 2% of gross salaries have been abolished. The law On Employment, 2001, reduced employers' contributions to the Employment Fund from 2% to 1%. The law was published on August 15, 2001 and was intended to become effective on January 1, 2002. However, Article XXVII(3) of the law On Making Amendments and Additions to Various Laws of the Azerbaijan Republic published on December 29, 2001 has the effect of amending Article 18 of the law On Employment, 2001 so as to completely eliminate employers' contributions to the Employment Fund.

A further amendment affecting social security is that the control function of the tax authorities over payments to special purpose state funds has been formally abolished. In practice, this had already ceased following the introduction of the Tax Code, 2000.

The definition in the Tax Code, 2000, of 'entrepreneurial activity' has been changed[21]. This previously referred to economic activity being carried out on a 'regular' basis. The new definition is wide enough to encompass single transactions.

Administration; Penalties; Interest

Penalties for excise duty default. All financial sanctions applicable to VAT now apply to excise tax[22]. Previously, the penalty for an excise tax understatement, the penalty was 20% of the understated amount. The penalty for understatement has, consequently, been increased to 40%.

New penalty for wrong accounting. A new financial sanction of 20% of the unpaid tax has been introduced for not recording stock in accounting records;

Interest on overdue tax has been reduced to 0.05% per day (from 0.1%);

Disclosure of information. Certain provisions concerning the disclosure of customer-related information by banks to the tax authorities have been extended to include the accounts of entrepreneurs as well as legal entities[23].

Tax exemption for interest from securities and bank deposits. Tax exemptions for bank interest and interest and dividends on securities have been extended till January 1, 2004 by a new law dated November 15, 2001. Ironically, although the law granting exemption for three years enters into force on January 1, 2002, the exemption commences on January 1, 2001. It appears, therefore, that the tax authorities have somewhat belatedly accepted arguments that the previous exemption, established under an amendment to the old law on income tax, was made invalid by virtue of the Tax Code, 2000.

Registration; Accounting; Miscellaneous

Tax-only registrations. A new provision enables foreign companies with activities in Azerbaijan which do not give rise to the creation of a permanent establishment to register for tax purposes only[24]. However, in practice, meeting the requirements for such registration is likely to be problematic. Implementing regulations are awaited.

Transfer-pricing provisions have been expanded by applying market pricing standards to import-export transactions as well as barter, related-party, and deeply discounted transactions[25].

New reporting requirements: a quarterly report on withheld taxes should be filed within 20 days of end of the quarter;

Transit road tax rates have been decreased[26].

The tax rate varies depending on a number of factors, including, inter alia, the type of vehicle, load carrying capacity, type of cargo (e.g., hazardous), number of seats, distance of travel within Azerbaijan, load per axle, as well as the period of stay in Azerbaijan.

Specifically, each passenger car entering Azerbaijan has to pay US $15 as a transit road tax. The rates for buses and trucks vary based on the criteria enumerated above. Thus, owners of buses pay between $30 and $50 (previously $100) based on the number of seats.

Number of passenger seats	USD
1-12	30
13-30	40
More than 30	50

Truck-owners pay the tax when crossing the border based on the load, as well as the nature of the cargo. The range is from $40 to $100 (previously, $100 to $180) (with significant increases in tax rates for hazardous cargo).

Load (tons)	USD
1-10	40
11-24	70
More than 24	100

The Tax Code, 2000, is unchanged in respect of additional charges depending on the length of stay of foreign vehicles in Azerbaijan and charges based on the number of kilometers driven within Azerbaijan if the load per axle exceeds permitted limits.

The simplified tax regime is no longer simple[27]. It previously applied to all persons whose taxable supplies for the prior three months did not exceed 1,000 times the non-taxable band of monthly salary (i.e. equal to AZM 100 million). Such taxpayers did not have to register for VAT or pay taxes other than 2% of turnover. The threshold has been reduced to 300 times the non-taxable band of monthly salary (i.e. equal to AZM 30 million) and legal entities are also made payers of land and assets taxes.

New law on State duties enters into force. A new law On State Duties has been signed into law and became effective as of January 1, 2002 (thus effectively repealing the law On State Duties, 1995).

In a departure from former procedure, the law itself establishes a list of specific activities subject to State duty and sets out the specific rates of duty applicable. Previously, the Cabinet of Ministers was in charge of determining the specific rates of State duty.

The most important change relates to duty for the State registration of representative offices of foreign legal entities. This was previously $2,000 but is now the same as for branches of foreign legal entities and local banks, exchanges, insurance companies etc. (around $230).

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1 Law *On Making Amendments and Additions to the Tax Code*, 2001, made on November 16, 2001 and entering into force January 1, 2002 ("*Amendments*, 2001").
2 *Amendments*, 2001, Article 37,38, amending Article 101 of the *Tax Code*, 2000.
3 *Amendments*, 2001, Article 36, amending Article 98.3 of the *Tax Code*, 2000.
4 *Amendments*, 2001, Article 40, amending Article 102.1.4 of the *Tax Code*, 2000.
5 *Amendments*, 2001, Article 45, repealing *Tax Code*, 2000, Article 106.3.
6 *Amendments*, 2001, Article 46, amending *Tax Code*, 2000, Article 114. The new provision is somewhat ambiguously worded – it seems to intend to limit the application of accelerated depreciation to assets used in the production process (including buildings, structures, assets used in the expansion of an enterprise and in technological development, and motor vehicles used in production). However, it then adds 'other assets' as also qualifying assets which appears to negate the earlier limitation.
7 Intangible assets are included as a class of fixed assets although the definition of fixed assets given in *Tax Code*, 2000, Article 13.2.17 would seem to preclude this.
8 *Tax Code*, 2000, Article 117.
9 See *Tax Code*, 2000, Article 118.1.
10 Land, fine art and other assets that do not deteriorate are not depreciable for tax purposes – *Tax Code*, 2000, Article 114.2. See also Cabinet of Ministers' resolution No. 5, January 4, 2001.
11 *Amendments*, 2001, Article 47, amending *Tax Code*, 2000, Article 125.1.5.
12 *Tax Code*, 2000, Article 124.
13 *Tax Code*, 2000, Article 125.1.5 which refers, inter alia, to *Tax Code*, 2000, Article 13.2.16.10, 13.2.16.11, 13.2.16.12.
14 Cf. the law *On Making Amendments and Additions to the Tax Code*, 2001, Art. 47.
15 *Amendments*, 2001, Article 55, amending *Tax Code*, Article 155.1.
16 *Amendments*, 2001, Article 63, amending *Tax Code*, Article 165.2.
17 *Amendments*, 2001, Article 64, amending *Tax Code*, Article 175.
18 See Cabinet of Ministers' resolution No. 135, 8 August 2001.
19 *Procedural Rules for Zero-rate Taxation of Value Added Tax in respect of Official Use by Foreign Diplomatic Missions and Similar Representations* etc., 13 July 2001.
20 Law *On Making Amendments and Additions to Various Laws of the Azerbaijan Republic* published on December 29, 2001, Article 1, amending the law *On Preventing Disability, and the Social Insurance and Rehabilitation of Invalids*, 1992, Article 5.
21 *Amendments*, 2001, Article 7, amending *Tax Code*, 2000, Article 13.2.37.
22 *Amendments*, 2001, Article 21, 22 amending *Tax Code*, 2000, Article 58.3.
23 *Amendments*, 2001, Article 30-33, amending *Tax Code*, 2000, Article 76.
24 *Amendments*, 2001, Article 15, adding new Article 33.8 to the *Tax Code*, 2000.
25 *Amendments*, 2001, Article 8, amending *Tax Code*, 2000, Article 14.3.1.
26 *Amendments*, 2001, Article 74-75, amending *Tax Code*, 2000, Article 211.
27 *Amendments*, 2001, Article 55, 78, amending *Tax Code*, 2000, Article 155.1, 219.2. ❑

OIL AND GAS PRODUCTION AND EXPORTS IN CASPIAN REGION NOVEMBER 2001

Company	November	Daily Average	+/- Daily Avg. November vs. October	YTD
AZERBAIJAN				
OIL PRODUCTION (thousand tons)				
SOCAR:				
Onshore Exploration Boards:				
Amirova NGDU	8.6	0.29	(0.00)	96.4
Balakhanyneft NGDU	17.8	0.59	(0.00)	205.8
Bibi-Eybatneft NGDU	10.9	0.36	0.00	124.7
Binagadineft NGDU	10.1	0.34	0.00	112.5
Siyazanneft NGDU	4.4	0.15	(0.02)	57.4
Surakhanyneft NGDU	9.9	0.33	(0.00)	113.8
Tagiyeva NGDU	6.4	0.21	0.00	70.0
Total for Onshore Exploration Boards	*68.1*	*2.27*	*(0.02)*	*780.6*
Offshore Exploration Boards:				
Apsheronneft NGDU	12.7	0.42	(0.00)	142.5
Bulla Deniz NGDU	5.9	0.20	(0.05)	67.2
Gum Adasy NGDU	13.1	0.44	0.00	147.8
May 28th NGDU	487.7	16.26	0.02	5,440.6
Narimanova NGDU	23.9	0.80	0.00	268.6
Neftdashlary NGDU	65.7	2.19	(0.00)	738.2
Total for Offshore Exploration Boards	*609.0*	*20.30*	*(0.03)*	*6,804.9*
Total for SOCAR	***677.1***	***22.57***	***(0.05)***	***7,585.5***
Other Companies and JVs:				
Anshad Petrol JV	3.4	0.11	(0.02)	40.7
Azerbaijan International Operating Co. (AIOC)	506.5	16.88	0.80	5,394.9
Karasu	11.7	0.39	0.01	127.0
Azgerneft JV	3.6	0.12	0.01	38.3
Salyan Oil	25.0	0.83	0.00	259.9
Shirvan Oil JV	18.6	0.62	(0.02)	206.2
Muradkhanly	2.5	0.08	0.00	5.0
Total for Other Companies and JVs	*571.3*	*19.04*	*0.79*	*6,072.0*
Total for Azerbaijan	***1,248.4***	***41.61***	***0.74***	***13,657.5***
GAS PRODUCTION (thousand cubic meters)				
SOCAR:				
Onshore Exploration Boards:				
Amirova NGDU	3,200.0	106.67	0.22	36,500.0
Balakhanyneft NGDU	800.0	26.67	0.86	8,700.0
Bibi-Eybatneft NGDU	1,900.0	63.33	2.04	19,400.0
Binagadineft NGDU	1,400.0	46.67	1.51	14,600.0
Siyazanneft NGDU	3,200.0	106.67	(3.01)	35,700.0
Surakhanyneft NGDU	4,400.0	146.67	98.28	20,800.0
Tagiyeva NGDU	800.0	26.67	0.86	8,400.0
Total for Onshore Exploration Boards	*15,700.0*	*523.33*	*100.75*	*144,100.0*

OIL AND GAS PRODUCTION AND EXPORTS IN CASPIAN REGION NOVEMBER 2001

Company	November	Daily Average	+/- Daily Avg. November vs. October	YTD
Offshore Exploration Boards:				
Apsheronneft NGDU	3,100.0	103.33	3.33	32,300.0
Bulla Deniz NGDU	47,400.0	1,580.00	(0.65)	525,500.0
Gum Adasy NGDU	54,200.0	1,806.67	(380.43)	912,500.0
May 28th NGDU	182,300.0	6,076.67	(474.95)	2,054,200.0
Narimanova NGDU	44,200.0	1,473.33	(16.99)	493,300.0
Neftdashlary NGDU	4,200.0	140.00	4.52	45,800.0
Total for Offshore Exploration Boards	*335,400.0*	*11,180.00*	*(865.16)*	*4,063,600.0*
Total for SOCAR	***351,100.0***	***11,703.33***	***(764.41)***	***4,207,700.0***
Other Companies and JVs:				
Anshad Petrol JV	2,100.0	70.00	15.16	19,900.0
Azerbaijan International Operating Co. (AIOC)	82,600.0	2,753.33	192.04	833,400.0
Karasu	600.0	20.00	0.65	8,100.0
Azgerneft JV	100.0	3.33	0.11	1,890.0
Shirvan Oil JV	1,100.0	36.67	1.18	9,600.0
Salyan Oil	5,000.0	166.67	15.05	36,700.0
Muradkhanly	40.0	1.33	0.04	80.0
Total for Other Companies and JVs	*91,540.0*	*3,051.33*	*209.14*	*909,670.0*
Total for Azerbaijan	***442,640.0***	***14,754.67***	***(555.27)***	***5,117,370.0***
KAZAKHSTAN				
OIL PRODUCTION (thousand tons)				
KazakhOil State Company Subsidiaries:				
Kazakhoil-Emba	199.0	6.63	(0.08)	2,199.0
Uzenmunaigaz	344.7	11.49	(0.27)	3,815.0
Total for KazakhOil State Company Subsidiaries	*543.7*	*18.12*	*(0.34)*	*6,014.0*
Other Companies and JVs:				
Mangistaumunaigaz	366.5	10.63	2.64	4,039.3
Aktobemunaigaz	319.0	34.95	(1.58)	2,919.1
Tengizchevroil JV	1,048.4	0.48	0.02	11,411.9
KazakhOil-Telf JV	14.5	0.75	(0.06)	158.8
Arman JV	22.6	0.66	0.03	247.4
Kazturkmunai JV	19.9	0.03	0.00	255.1
Tenge JV	0.9	0.03	0.00	12.6
Gyural JV	0.8	0.88	(0.01)	9.3
Karakudukmunai JV	26.5	0.03	0.00	275.4
Embavedoil JV	0.9	0.59	0.02	10.5
Matin JV	17.8	0.28	0.02	184.0
ANAKO	8.4	9.74	(0.50)	93.4
Hurricane-Kumkol JV	292.1	13.67	1.70	3,251.9
Karachaganak Petroleum Operating Co.***	410.1	4.10	0.24	3,857.2
Karazhanbasmunai	123.1	2.54	(0.32)	1,114.5
Kazgermunai JV	76.1	0.50	0.01	758.4
Kuatamlonmunai JV	15.1	4.65	(0.03)	186.6
Turgai-Petroleum JV	139.5	0.05	0.04	1,327.0
Munai NPTs	1.5	0.01	(0.00)	16.0
Svetlandoil JV	0.4	0.50	0.03	4.0
Sazankuran	14.9	0.00	(0.05)	152.0
Almaz International Trading	0.1	0.93	(0.10)	10.4
Texaco Noris Buzachi, Inc.	27.9	0.07	0.00	197.5
Alties Petroleum Int	2.2	0.17	(0.03)	27.4
Parteks Corporation	5.0	98.47	2.02	56.4
Total for Other Companies and JVs	*2,954.2*	*85.1*	*2.19*	*30,576.2*
Total for Kazakhstan	***3,497.8***	***116.6***	***1.85***	***36,590.2***

OIL AND GAS PRODUCTION AND EXPORTS IN CASPIAN REGION NOVEMBER 2001

Company	November	Daily Average	+/- Daily Avg. November vs. October	YTD
OIL EXPORTS (thousand tons)				
Kazakhoil	261.7	8.72	(3.27)	3,684.7
Other Companies and JVs:				
Aktobemunaigaz	340.0	11.33	3.68	2,961.2
Karachaganak Petroleum Operating Co.***	401.1	13.37	13.37	3,521.1
Kazakhturkmunai	0.0	0.00	0.00	20.0
Mangistaumunaigaz	190.0	6.33	3.11	1,705.0
Matin	17.5	0.58	0.00	200.6
Arman JV	0.0	0.00	0.00	20.0
Tengizchevroil JV	935.8	31.19	(4.90)	12,244.1
KazakhOil-Telf JV	0.0	0.00	0.00	30.0
Karazhanbasmunai JV	0.0	0.00	0.00	180.0
Kazgermunai JV	40.0	1.33	0.04	420.0
KazTransOil	220.0	7.33	2.17	1,283.0
Zhetybai-Quest	0.0	0.00	0.00	0.0
Karakudukmunai JV	0.0	0.00	0.00	0.0
Sazankuran	14.8	0.49	0.03	153.7
ANAKO	0.0	0.00	0.00	0.0
Other Enterprises	0.0	0.00	0.00	0.0
Total for Other Companies and JVs	*2,159.3*	*72.0*	*17.50*	*22,738.7*
Total for Kazakhstan	***2,421.0***	***80.7***	***14.23***	***26,423.5***
GAS PRODUCTION (thousand cubic meters)				
KazakhOil State Company Subsidiaries:				
Kazakhoil-Emba	8,800.0	293.33	23.62	91,918.0
Uzenmunaigaz	100,900.0	3,363.33	(10.86)	1,183,870.0
Total for KazakhOil State Company Subsidiaries	*109,700.0*	*3,656.7*	*12.76*	*1,275,788.0*
Other Companies and JVs:				
Aktobemunaigaz	51,302.0	1,710.07	795.81	450,961.0
Tengizchevroil JV	308,148.0	10,271.60	916.76	2,832,053.0
Mangistaumunaigaz	13,200.0	440.00	(1.94)	143,170.0
Parteks Corporation	415.0	13.83	1.93	4,404.0
Hurricane-Kumkol JV	4,622.0	154.07	12.13	44,528.0
Turgai-Petroleum JV	1,234.0	41.13	(0.03)	13,846.0
Karachaganak Petroleum Operating Co.***	388,439.0	12,947.97	11,578.35	3,366,113.0
Tenge	9,807.0	326.90	257.22	36,640.0
GazService	0.0	0.00	0.00	0.0
Total for Other Companies and JVs	*777,167.0*	*25,905.6*	*13,560.24*	*6,891,715.0*
Total for Kazakhstan	***886,867.0***	***29,562.2***	***13,573.01***	***8,167,503.0***
TURKMENISTAN				
OIL PRODUCTION (thousand tons)				
Turkmenneft:				
Gotur-Depeneft NGDU	244.9	8.16	0.32	2,600.7
Nebitdagneft NGDU	142.8	4.76	0.39	1,376.4
Kumdagneft NGDU	30.0	1.00	0.08	284.0
Gamyshldzhaneft NGDU	192.4	6.41	0.66	1,764.7
Chelekenneft NGDU	36.0	1.20	0.09	375.3
Korpedzhinskoye NGDU	19.1	0.64	0.15	162.9
Total for Turkmenneft	*665.2*	*22.17*	*1.69*	*6,564.0*

OIL AND GAS PRODUCTION AND EXPORTS IN CASPIAN REGION NOVEMBER 2001

Company	November	Daily Average	+/- Daily Avg. November vs. October	YTD
Other Companies and JVs:				
Other Companies**	74.2	2.47	0.26	698.4
Total for Turkmenistan	***739.4***	***24.65***	***(3.48)***	***7,262.4***
GAS PRODUCTION (thousand cubic meters)				
	4,400,000.0	146,666.67	17,634.41	41,285,000.0
Total for Turkmenistan	***4,400,000.0***	***146,666.67***	***17,634.41***	***41,285,000.0***
GAS EXPORTS (thousand cubic meters)				
Total for Turkmenistan	***3,800,000.0***	***126,666.67***	***20,215.05***	***33,200,000.0***

Note: All figures are preliminary.

* New or previously not reported companies

** Including: Larmag Cheleken, Lasmo and oil received from Uzbekistan (Kokdumalak field)

*** International Contractor Group Production

Sources: KazakhOil State Company, Kazakh Ministry of Energy and Mineral Resources, SOCAR, Turkmenneft, Turkmenistan State Committee for Statistics

OIL AND GAS PRODUCTION AND EXPORTS IN CASPIAN REGION DECEMBER 2001

Company	December	Daily Average	+/- Daily Avg. December vs. November	YTD
AZERBAIJAN				
OIL PRODUCTION (thousand tons)				
SOCAR:				
Onshore Exploration Boards:				
Amirova NGDU	8.9	0.29	0.00	105.3
Balakhanyneft NGDU	18.4	0.59	0.00	224.2
Bibi-Eybatneft NGDU	11.2	0.36	(0.00)	135.9
Binagadineft NGDU	10.4	0.34	(0.00)	122.9
Siyazanneft NGDU	4.3	0.14	(0.01)	61.7
Surakhanyneft NGDU	10.3	0.33	0.00	124.1
Tagiyeva NGDU	6.6	0.21	(0.00)	76.6
Total for Onshore Exploration Boards	*70.1*	*2.26*	*(0.01)*	*850.7*
Offshore Exploration Boards:				
Apsheronneft NGDU	12.9	0.42	(0.01)	155.4
Bulla Deniz NGDU	4.7	0.15	(0.05)	71.9
Gum Adasy NGDU	13.4	0.43	(0.00)	161.2
May 28th NGDU	491.1	15.84	(0.41)	5,931.7
Narimanova NGDU	24.6	0.79	(0.00)	293.2
Neftdashlary NGDU	64.6	2.08	(0.11)	802.8
Total for Offshore Exploration Boards	*611.3*	*19.72*	*(0.58)*	*7,416.2*
Total for SOCAR	***681.4***	***21.98***	***(0.59)***	***8,266.9***
Other Companies and JVs:				
Anshad Petrol JV	4.0	0.13	0.02	44.7
Azerbaijan International Operating Co. (AIOC)	502.5	16.21	(0.67)	5,897.4
Karasu	11.8	0.38	(0.01)	138.8
Azgerneft JV	3.8	0.12	0.00	42.1
Salyan Oil	25.9	0.84	0.00	285.8
Shirvan Oil JV	19.1	0.62	(0.00)	225.3
Muradkhanly	2.8	0.09	0.01	7.8
Total for Other Companies and JVs	*569.9*	*18.38*	*(0.67)*	*6,641.9*
Total for Azerbaijan	***1,251.3***	***40.36***	***(1.26)***	***14,908.8***
GAS PRODUCTION (thousand cubic meters)				
SOCAR:				
Onshore Exploration Boards:				
Amirova NGDU	3,300.0	106.45	(0.22)	39,800.0
Balakhanyneft NGDU	800.0	25.81	(0.86)	9,500.0
Bibi-Eybatneft NGDU	1,900.0	61.29	(2.04)	21,300.0
Binagadineft NGDU	1,400.0	45.16	(1.51)	16,000.0
Siyazanneft NGDU	3,400.0	109.68	3.01	39,100.0
Surakhanyneft NGDU	1,500.0	48.39	(98.28)	22,300.0
Tagiyeva NGDU	800.0	25.81	(0.86)	9,200.0
Total for Onshore Exploration Boards	*13,100.0*	*422.58*	*(100.75)*	*157,200.0*

OIL AND GAS PRODUCTION AND EXPORTS IN CASPIAN REGION DECEMBER 2001

Company	December	Daily Average	+/- Daily Avg. December vs. November	YTD
Offshore Exploration Boards:				
Apsheronneft NGDU	3,100.0	100.00	(3.33)	35,400.0
Bulla Deniz NGDU	48,600.0	1,567.74	(12.26)	574,100.0
Gum Adasy NGDU	53,700.0	1,732.26	(74.41)	966,200.0
May 28th NGDU	187,200.0	6,038.71	(37.96)	2,241,400.0
Narimanova NGDU	45,700.0	1,474.19	0.86	539,000.0
Neftdashlary NGDU	4,200.0	135.48	(4.52)	50,000.0
Total for Offshore Exploration Boards	*342,500.0*	*11,048.39*	*(131.61)*	*4,406,100.0*
Total for SOCAR	***355,600.0***	***11,470.97***	***(232.37)***	***4,563,300.0***
Other Companies and JVs:				
Anshad Petrol JV	2,300.0	74.19	4.19	22,200.0
Azerbaijan International Operating Co. (AIOC)	85,900.0	2,770.97	17.63	919,300.0
Karasu	600.0	19.35	(0.65)	8,700.0
Azgerneft JV	100.0	3.23	(0.11)	1,990.0
Shirvan Oil JV	1,100.0	35.48	(1.18)	10,700.0
Salyan Oil	5,500.0	177.42	10.75	42,200.0
Muradkhanly	40.0	1.29	(0.04)	120.0
Total for Other Companies and JVs	*95,540.0*	*3,081.94*	*19.89*	*1,005,210.0*
Total for Azerbaijan	***451,140.0***	***14,552.90***	***(212.47)***	***5,568,510.0***
KAZAKHSTAN				
OIL PRODUCTION (thousand tons)				
KazakhOil State Company Subsidiaries:				
Kazakhoil-Emba	201.3	6.49	(0.14)	2,400.3
Uzenmunaigaz	354.8	11.45	(0.04)	4,169.8
Total for KazakhOil State Company Subsidiaries	*556.1*	*17.94*	*(0.18)*	*6,570.1*
Other Companies and JVs:				
Mangistaumunaigaz	369.7	10.94	0.30	4,409.0
Aktobemunaigaz	339.1	33.75	(1.20)	3,258.2
Tengizchevroil JV	1,046.1	0.46	(0.02)	12,458.0
KazakhOil-Telf JV	14.2	0.80	0.05	173.0
Arman JV	24.9	0.59	(0.07)	272.3
Kazturkmunai JV	18.4	0.03	(0.00)	273.5
Tenge JV	0.9	0.03	0.00	13.5
Gyural JV	0.9	0.93	0.05	10.2
Karakudukmunai JV	28.8	0.05	0.02	304.2
Embavedoil JV	1.5	0.59	(0.00)	12.0
Matin JV	18.3	0.31	0.03	202.3
ANAKO	9.5	11.45	1.72	102.9
Hurricane-Kumkol JV	355.1	15.23	1.56	3,607.0
Karachaganak Petroleum Operating Co.***	472.1	4.32	0.22	3,995.2
Karazhanbasmunai	133.9	1.63	(0.91)	1,248.4
Kazgermunai JV	50.5	0.48	(0.03)	808.9
Kuatamlonmunai JV	14.8	5.59	0.94	201.4
Turgai-Petroleum JV	173.2	0.02	(0.03)	1,500.2
Munai NPTs	0.6	0.02	0.00	16.6
Svetlandoil JV	0.5	0.46	(0.04)	4.5
Sazankuran	14.2	0.03	0.03	166.2
Almaz International Trading	0.9	0.86	(0.07)	11.3
Texaco Noris Buzachi, Inc.	26.7	0.05	(0.02)	224.3
Alties Petroleum Int	1.7	0.17	0.01	29.1
Parteks Corporation	5.4	100.71	2.24	61.8
Total for Other Companies and JVs	*3,122.0*	*87.7*	*2.61*	*33,364.2*
Total for Kazakhstan	***3,678.1***	***118.6***	***2.42***	***39,934.3***

OIL AND GAS PRODUCTION AND EXPORTS IN CASPIAN REGION DECEMBER 2001

Company	December	Daily Average	+/- Daily Avg. December vs. November	YTD
OIL EXPORTS (thousand tons)				
Kazakhoil	269.1	8.68	(0.04)	3,953.8
Other Companies and JVs:				
Aktobemunaigaz	335.0	10.81	(0.53)	3,296.2
Karachaganak Petroleum Operating Co.***	410.1	13.23	(0.14)	3,931.2
Kazakhturkmunai	0.0	0.00	0.00	20.0
Mangistaumunaigaz	150.0	4.84	(1.49)	1,855.0
Matin	17.7	0.57	(0.01)	218.3
Arman JV	0.0	0.00	0.00	20.0
Tengizchevroil JV	600.3	19.36	(11.83)	12,844.4
KazakhOil-Telf JV	0.0	0.00	0.00	30.0
Karazhanbasmunai JV	0.0	0.00	0.00	180.0
Kazgermunai JV	40.0	1.29	(0.04)	460.0
KazTransOil	75.0	2.42	(4.91)	1,358.0
Zhetybai-Quest	0.0	0.00	0.00	0.0
Karakudukmunai JV	0.0	0.00	0.00	0.0
Sazankuran	14.2	0.46	(0.03)	167.9
ANAKO	0.0	0.00	0.00	0.0
Other Enterprises	0.0	0.00	0.00	0.0
Total for Other Companies and JVs	*1,642.3*	*53.0*	*(19.00)*	*24,381.1*
Total for Kazakhstan	***1,911.4***	***61.7***	***(19.04)***	***28,334.9***
GAS PRODUCTION (thousand cubic meters)				
KazakhOil State Company Subsidiaries:				
Kazakhoil-Emba	9,020.0	290.97	(2.37)	100,938.0
Uzenmunaigaz	103,200.0	3,329.03	(34.30)	1,287,070.0
Total for KazakhOil State Company Subsidiaries	*112,220.0*	*3,620.0*	*(36.67)*	*1,388,008.0*
Other Companies and JVs:				
Aktobemunaigaz	53,930.0	1,739.68	29.61	504,891.0
Tengizchevroil JV	299,432.0	9,659.10	(612.50)	3,131,485.0
Mangistaumunaigaz	13,240.0	427.10	(12.90)	156,410.0
Parteks Corporation	361.0	11.65	(2.19)	4,765.0
Hurricane-Kumkol JV	5,403.0	174.29	20.22	49,931.0
Turgai-Petroleum JV	1,276.0	41.16	0.03	15,122.0
Karachaganak Petroleum Operating Co.***	442,643.0	14,278.81	1,330.84	3,808,756.0
Tenge	10,439.0	336.74	9.84	47,079.0
GazService	0.0	0.00	0.00	0.0
Total for Other Companies and JVs	*826,724.0*	*26,668.5*	*762.95*	*7,718,439.0*
Total for Kazakhstan	***938,944.0***	***30,288.5***	***726.28***	***9,106,447.0***
TURKMENISTAN				
OIL PRODUCTION (thousand tons)				
Turkmenneft:				
Gotur-Depeneft NGDU	250.0	8.06	(0.10)	2,850.7
Nebitdagneft NGDU	145.2	4.68	(0.08)	1,521.6
Kumdagneft NGDU	34.0	1.10	0.10	318.0
Gamyshldzhaneft NGDU	219.5	7.08	0.67	1,984.2
Chelekenneft NGDU	38.0	1.23	0.03	413.3
Korpedzhinskoye NGDU	23.3	0.75	0.11	186.2
Total for Turkmenneft	*710.0*	*22.90*	*0.73*	*7,274.0*

OIL AND GAS PRODUCTION AND EXPORTS IN CASPIAN REGION DECEMBER 2001

Company	December	Daily Average	+/- Daily Avg. December vs. November	YTD
Other Companies and JVs:				
Other Companies**	76.7	2.47	0.00	775.1
Total for Turkmenistan	***786.7***	***25.38***	***28.85***	***8,049.1***
GAS PRODUCTION (thousand cubic meters)				
	4,700,000.0	151,612.90	4,946.24	45,985,000.0
Total for Turkmenistan	***4,700,000.0***	***151,612.90***	***4,946.24***	***45,985,000.0***
GAS EXPORTS (thousand cubic meters)				
Total for Turkmenistan	***4,100,000.0***	***132,258.06***	***5,591.40***	***37,300,000.0***

Note: All figures are preliminary.

* New or previously not reported companies

** Including: Larmag Cheleken, Lasmo and oil received from Uzbekistan (Kokdumalak field)

*** International Contractor Group Production

Sources: KazakhOil State Company, Kazakh Ministry of Energy and Mineral Resources, SOCAR, Turkmenneft, Turkmenistan State Committee for Statistics

Kulibayev

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ties is a worrying trend. It is conceivable that, as Nazarbayev's economic power weakens, and especially if the economic situation deteriorates, foreigners will present an easy scapegoat for Kazakhstan's woes.

Another important change is a direct result of the emergence of a new class of powerful local oligarchs, who will challenge foreign investors through their connections with regulatory authorities, creating difficulties that they would themselves solve for an appropriate stake in profits. In this sense, Kazakhstan's energy politics will increasingly resemble that of Russia in the mid-1990s, where, notwithstanding country risks, both connections in the government and a strong local partner could offer a foreign investor relative peace of mind. Even these connections, however, as many investors in Russia discovered to their peril in the 1990s, did not guarantee success.

The single most influential business leader in Kazakhstan who may soon affect the position of every foreign energy investor in the republic is Timur Kulibayev. President Nazarbayev's "younger" son-in-law, Kulibayev has been running Kazakhstan's domestic energy transportation network, TransNefteGaz (TNG), while expanding his reach to other top sectors, from airlines to banking to telecommunications. Kulibayev has played his cards much more wisely than Aliyev, broadening his power base without open clashes with opponents and keeping a low political profile.

Kulibayev has used his position at TNG to increase transportation tariffs that many foreign operators are exposed to. His influence, however, no longer depends decisively on his tenure at TNG, and consequently on Nazarbayev. Kulibayev can fall back on the broader power base that he has created over the last several years. With his money and energy know-how, therefore, Kulibayev is in a position not just to dominate the energy sector, but also to survive the succession to another president. Whichever political force emerges on top in the coming years, it will have to reckon with Kulibayev.

Kazakhstan's political system is headed for a period of uncertainty as new and powerful players emerge in place of the earlier political monolith. In this environment, foreign investors will succeed best by being aware of the intricacies of major players and thinking hard about local partnerships. ❑